BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

ANNUAL REPORT 2019

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MISSION STATEMENT

To uphold the integrity of the British Virgin Islands (BVI) as a well-regulated international finance centre and safeguard the economic interests of the territory by:

Protect

the interest of the public and market participants

Ensuring Industry Compliance

with the highest international regulatory standards and best business practices

Ensuring That the BVI

plays its part in the fight against cross-border white collar crime, while safeguarding the privacy and confidentiality of legitimate business transaction

WE PLEDGE

Vigilance

To remain keenly alert in our regulation and supervision of the financial services industry to protect and enhance the BVI's reputation and integrity as a leading destination for legitimate cross-border business

Integrity

To always endeavour to do the right thing, recalling the values and principles of the FSC in every action and decision

Leadership

To aspire to lead the industry with innovative, flexible legislation, deliver high quality service and maintain a clear vision of where we are going

Accountability

To be responsible for addressing the financial needs and concerns of the business community

STRATEGIC AIMS

TO BE FULLY AWARE

of international standards and their application to the BVI and issue guidelines to the industry as necessary.

TO ENSURE

that all entities we authorise and supervise are operating in compliance with BVI legislation, regulation and international standards of best practice.

TO ENSURE

that all entities we authorise and supervise meet “fit and proper” criteria at the licensing stage and on an ongoing basis.

TO CONDUCT

ongoing review of financial services legislation and make recommendations for changes, where applicable.

TO ENSURE

that the FSC operates effectively and efficiently.

TO IDENTIFY

and deter abuses and breaches of legislation.

TO RAISE

public awareness of the BVI financial services industry and develop and implement a system of continuing education for industry practitioners.

TO ENSURE

that the Registry of Corporate Affairs provide world class services to ensure the international competitiveness of the BVI.

OUR LOGO

THE LIGHTHOUSE

Just as a lighthouse provides terrestrial travelers of today with the same sense of hope and re-assurance that it provided mariners years ago, the Commission's logo bears testimony to the Commission's dedication to upholding standards befitting a premier international finance centre.

It is symbolic of our commitment to preserving the safety and soundness of the BVI's financial services system so as to maintain the confidence of clients doing business from and within the BVI.

Cabinet

Board of Commissioners

Robin Gaul (Chairman), Jonathan Fiechter (Deputy Chairman), Andrew D. Bickerton, Carl S. Hiralal, Robert A. Mathavious, Denise Reovan, Carlene Romney, Ian Smith

FSC (HK) Ltd.

Asia Representative
Burton Chalwell Jr.

Robert A. Mathavious
Managing Director/CEO

Jennifer Potter-Questelles
Deputy Managing Director - Corporate Services

Kenneth Baker
Deputy Managing Director - Regulation

Cherno Jallow, QC
Policy, Research and Statistics Division

Policy, Research and Statistics Division

Director
Cherno Jallow, QC

Deputy Director
Allene Gumbs

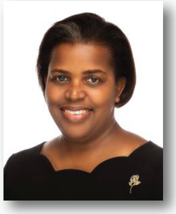
Annet Mactavious
Human Resources Manager

Human Resources Division

Director
Annet Mactavious

Deputy Director - Benefits
Solika Carey

Deputy Director Training & Development
Trecia Dawson



Dawn Smith
General Counsel

General Counsel
Dawn Smith

Stephen Grayson
Legal Division

Legal Division

Director
Stephen Grayson

Deputy Director
Dian Fahie-DeCastro

Brodrick Penn
Enforcement Division

Enforcement Division

Director
Brodrick Penn

Deputy Director
Shane Baptiste

Board Secretary
Annet Mactavious

Corporate Services Division
Director
Jennifer Potter-Questelles

Finance
Director
Sheldon Scatliffe

Registry of Corporate Affairs
Registrar
Myrna Herbert
Deputy Registrar
Lydia George
Deputy Registrar
Kamika Forbes

Banking, Insolvency and Fiduciary Services
Director
Kenneth Baker
Deputy Director: Fiduciary
Yolanda McCoy
Deputy Director: Insolvency
Shakuntala Yamraj
Deputy Director: Compliance Inspection Unit
Leon Wheatley

Investment Business Division
Director
Glenford Malone
Deputy Director
Kishelle Blaize-Cameron

Insurance Division
Director

Deputy Director
Trevecca Hodge

AML Unit
Deputy Director
Alva McCall

Executive Management Team

Robert Mathavious *Managing Director/CEO*	**Dawn Smith** *General Counsel*
Jennifer Potter-Questelles *Deputy Managing Director - Corporate Services*	**Glenford Malone** *Director - Investment Business*
Kenneth Baker *Deputy Managing Director - Regulation*	**Annet Mactavious** *Director - Human Resources* *Secretary, Board of Commissioners*
Cherno Jallow, QC *Director - Policy, Research and Statistics*	**Brodrick Penn** *Director - Enforcement Division*

BOARD PROFILE

ROBIN GAUL
CHAIRMAN

JOHNATHAN FIECHTER
DEPUTY CHAIRMAN
EXTERNAL COMMISSIONER

ROBERT MATHAVIOUS
MD/CEO

CARLENE ROMNEY
COMMISSIONER

ANDREW BICKERTON
COMMISSIONER

DENISE REOVAN
COMMISSIONER

IAN SMITH
COMMISSIONER

CARL HIRALAL
EXTERNAL MEMBER

Mr. Robin Gaul (Chairman), Mr. Jonathan Fiechter (Deputy Chairman)
Mr. Robert Mathavious, Ms. Carlene Romney, Mr. Andrew Bickerton,
Ms. Denise Reovan, Mr. Ian Smith, Mr. Carl Hiralal

“IT IS MY PLEASURE TO REPORT TO THE GOVERNMENT AND PEOPLE OF THE BRITISH VIRGIN ISLANDS THROUGH THE HONOURABLE PREMIER AND MINISTER OF FINANCE CONCERNING THE ACTIVITIES OF THE COMMISSION DURING 2019.”

CHAIRMAN'S STATEMENT

A decline in revenues at the Company Registry Division has been experienced, resultant from a reduction in new incorporations for the year and also a decline in renewals. This reflects uncertainties caused by the demands of the United Kingdom to make details of Beneficial Ownership public, and the Territory having implemented Economic Substance legislation in compliance with European Union requirements. Unfortunately, it is expected that this negative trend will continue into 2020 and beyond, exacerbated by the global downturn caused by the COVID-19 pandemic.

The results for 2019 nevertheless remained positive and reflect total fees collected on behalf of Government of $234 million, down from $262 million the previous year, out of which direct payments to Government were made of $205 million, down from $232 million previously. The Commission's net income has covered operational costs and permits a distribution to Government out of surplus in the amount of $4 million.

In accordance with section 27 of the Act, I present this report on the operation and activities of the Commission for 2019, together with the enclosed auditor's report and accompanying financial statements.

Robin Gaul
Chairman

"A warm welcome to our 2019 Annual Report, which describes the British Virgin Islands Financial Services Commission's focus, actions and accomplishments."

MANAGING DIRECTOR/CEO STATEMENT

2019 saw the Commission celebrate its 18th year since its statutory establishment by the Financial Services Commission Act in 2001.

The Commission supervises, regulates and inspects all financial services activities and institutions operating in and from within the Territory. We operate the Registry of Corporate Affairs, advise the government of the Virgin Islands on financial services issues, and provide assistance to authorities locally and overseas to prevent, detect and prosecute financial crime.

We seek at all times to be vigilant, work with integrity, provide leadership and remain accountable and transparent. Our annual report, audited financial statements and strategic work plan are tabled in the House of Assembly of the British Virgin Islands and posted publicly on our website.

The Commission takes its task of maintaining the Virgin Island's ("VI") position as a well-regulated jurisdiction from which to conduct financial services business very seriously. We work with our industry practitioners to promote and ensure compliance with local and international regulatory and supervisory requirements and best practices.

We believe that compliance and competitiveness go hand in hand. Maintaining our positive reputation for both is essential and underpins the continuing success of our Territory's financial services industry.

We continued our programme of onsite compliance inspections in 2019 and will publish a detailed report of our sectoral assessments next year. Our supervisory remit this year expanded to include private investment funds, and we strengthened the framework for recognised foreign funds.

Our new Anti-money Laundering Unit reinforces the Commission's role as the Territory's primary AML supervisor. With a view to the VI's mutual evaluation by the Caribbean Financial Action task Force (CFATF) in 2021, the Unit is driving implementation of the Commission's Action Plan subsequent to the Territory's 2016 National Risk Assessment.

The Unit is also reviewing numerous industry guidelines to raise awareness of and compliance with AML/CFT obligations and in 2020 will be conducting sectoral AML risk assessments to provide an updated understanding of the Territory's money laundering (ML) and terrorist financing (TF) risks in line with FATF Recommendation 1. A draft Bill to enhance the VI's TF legislation is expected in early 2020.

Thirty-five years since the Territory introduced its pioneering companies legislation, the BVI Business Company remains the preferred vehicle for the conduct of business globally.

While new incorporations fell this year, annual fee renewals and business continuations increased. The BVI's position has risen in the latest Global Financial Centres Index, which measures the competitiveness of financial centres.

The success of our finance centre is founded on a long-standing partnership between the regulator, government and industry. This year, we collaborated further with industry around the introduction of significant legislative changes and deepened dialogue at our Meet the Regulator Forum.

We continued to engage fully with international standards-setters and regulators so as to respond to requests for assistance and meet global expectations while safeguarding the Territory's reputation as a leading finance centre for legitimate business.

In July, the Ontario Securities Commission thanked the Commission for its assistance in investigating breaches of its securities laws, which resulted in disgorgement of $37.5m.

Following positive engagement with the European Union (EU) and the OECD, 2019 saw the entry into force of the Territory's Economic Substance (Companies and Limited Partnerships) Act, 2018 and related amendments to the Beneficial Ownership Secure Search System Act (BOSSS) Act.

Being able to adapt the Territory's sophisticated BOSS information sharing system to introduce economic substance reporting has put the VI at the forefront of jurisdictions. Regulated entities are required to determine their economic substance classifications by 1 January 2020.

The Commission constantly seeks new and more efficient ways of operating and responding to industry and international demands.

This year, we updated our online VIRRGIN registry system to adjust to legislative changes and increase the ease of doing business, and saw a 25 per cent rise in Premium Service filings. Demand continues for our Hong Kong office's popular service of providing printed certificates. Efforts are being made to make filing and processing transactions even more efficient.

An important focus in 2019 has been on digital assets and FinTech – both for regulation, supervision and data analysis and for protecting against cyber risks. Our AML rules now permit digital ID verification and receipt of electronic copies of documents. We expect this to set a new standard for know-your-client (KYC) verification.

The launch of a FinTech Regulatory Sandbox next year will enable innovative products and services to be tested in a safe regulatory environment.

We are keeping closely abreast of crypto-asset developments. The Commission will not rush into regulation but will maintain its long-standing approach of acting prudently in effective consultation with the industry.

The Commission keeps a close eye on international developments and actively participates in regional and international groups and standards-setting bodies. Our employees also enhance their skills by participating in international meetings and other specialist training.

In 2019, the Commission was represented at activities organised by the Caribbean Group of Securities Regulators (CGSR), Caribbean Group of Banking Supervisors (CGBS), Caribbean Association of Insurance Regulators (CAIR), International Organisation of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS) and Group of International Finance Centre Supervisors (GIFCS).

We facilitated a GIFCS evaluation of the VI's compliance with the GIFCS Standard for Trust and Corporate Service Providers and we look forward to the final report being published next year.

The Commission believes in developing and enhancing its employees' talent and has appointed a Deputy Director responsible for training and development. We look forward to the Financial Action Task Force (FATF) Secretariat training in 2020 for our staff and those of VI competent authorities and law enforcement bodies.

I am most grateful to all our employees for their hard work and continuing dedication in these challenging times. The whole Commission is also indebted to its Chairman and the Board for their consistently constructive input and unstinting support.

Robert Mathavious
Managing Director/CEO

REGISTRY OF CORPORATE AFFAIRS

Company law legislation in the BVI celebrated 35 years in 2019. The BVI Business Company is still a premier and preferred vehicle for the conduct of business globally. Even since the advent of its hallmark registration system, VIRRGIN, the Registry of Corporate Affairs has engaged in agile practices to accommodate the complex transactions and enterprise for which the BVI Business company is aptly suited.

In 2019, the Registry continued to meet the demands for efficiency from a rapidly evolving financial services industry. The need for expediency is evidenced through the recorded 25 % increase in Premium Service filings since 2018. 49% of those premium service transactions were filings of Amendments to Memorandum and Articles for BVI Business Companies. The Registry began offering expedited processing of select transactions as a Premium Service in 2015. Premium Service transactions are processed within 4 hours of receipt within the hours of 7 a.m. and 10 p.m. on business days. In 2019, the average processing time for premium service transactions was under an hour.

During the year 2019, there was a 15% decrease in the number of Limited Partnerships registered. The decrease in registrations in 2019 was anticipated as the volume of limited partnerships registrations were expected to normalise following a surge in registrations at introduction of new legislation in 2017.

Twelve Limited Partnerships which were previously governed by the Limited Partnership Act, 2006 elected to re-register under the new Limited Partnership Act.

All limited partnerships registered under the 2006 Limited Partnership Act will be governed by the Limited Partnership Act, 2017 by the year 2027.

Plans are progressing to introduce additional functionalities in VIRRGIN to accommodate filings of Limited Partnership transactions under the recent Limited Partnership Act, 2017.

Post-incorporation transactions continued to increase during 2019. The Registry recorded increased post incorporation transactions for annual fee renewals and continuations by foreign companies into the BVI. The number of dissolutions of BVI Business Companies decreased by 7% from 2018.

Annual Fees and Continuations

Description	2019	2018
Annual Fee Renewals	350,839	345,798
Continuations into BVI	369	356

25%

increase in Premium Services filings since 2018

On 2 January, 2019, 6,413 BVI Business Companies were struck from the Register for failing to file Registers of Directors by 31 December, 2018.

INTELLECTUAL PROPERTY

The Office of the Registrar of Trade Marks, Patents and Copyright administers all intellectual property legislation in the Territory. The Office is responsible for the registration of trade marks and re-registration United Kingdom Patents. The registration of new Trade Marks accounted for over 28% of the transactions filed within the Office.

The Office continued to see a steady increase of trade mark registration activity in the BVI during 2019. Trade Marks were most frequently registered in class 36 of the Nice Classification in respect of insurance, financial affairs, monetary affairs, real estate affairs.

In 2019 the Office developed fillable forms to assist with the electronic filing and processing for 98% of its transactions.

PARTNERSHIPS AND COLLABORATIONS

In addition to the processing of trade mark related applications, the Office also expanded its public awareness programme through the established partnership with a local government department in 2019. The Office's series of presentations yielded increased inquires for local trade mark registration and additional applications.

Collaboration with Her Majesty's Customs to develop a more robust IP enforcement regime in the Territory continued in 2019. The Office intends to partner with other stakeholders from the Royal Virgin Islands Police Force, Health Services and Pharmaceutical industry to finalise the drafting of regulations to offer more protection to IP Rights holders within the Territory in the year ahead.

ADDITIONAL REGISTRARS FOR INTELLECTUAL PROPERTY

In October 2019 the Commission appointed an additional Deputy Registrar and two Assistant Registrars for Trade Marks, Patents and Copyright. The additional registrars assist with the increasing caseload of the Office and also ensure business continuity for the operations of the Office. At the end of 2019, the Office was supported by 1 Registrar, 2 Deputy Registrars and 2 Assistant Registrars.

OUTLOOK

The vision for 2020 is to improve on services to be delivered electronically to customers. The Registry will introduce online searches to international clients which would allow better access to information by the public. The Commission will champion the introduction of legislative amendments to facilitate the ease of doing company business in the BVI.

Planning for the revamp of VIRRGIN will also commence in the year ahead. This could be accompanied by the merger and improvement of features to reduce processing times.

The Registry will also aim to complete 50% of the digitisation of its intellectual property records in 2020. This will increase the efficient operations of the Office.

BANKING, INSOLVENCY AND FIDUCIARY SERVICES

The Banking, Insolvency & Fiduciary Services Division (the "Division") has supervisory responsibility for all banks, authorised custodians, financing and money services providers, trust and corporate service providers ("TCSPs") and insolvency practitioners operating in and from within the Virgin Islands. The Division operates as three separate Teams and administers a small suite of primary legislation.

Licensing and Cancellations – Ninety-seven (97) licences were issued, two (2) licences were reclassified and eleven (11) licences were cancelled in 2019. Thus, as at year-end 2019, there were 273 licensees, an increase of 84 (44.44%) over 2018. The increase was mainly a result of the Subsidiaries Removal Project.

The Subsidiaries Removal Project entailed the removal of all subsidiaries from licensees' licences. The 2018 amendments to the Banks and Trust Companies Act, 1990 ("BTCA") prescribed that subsidiaries of licensees submit a written application to the Commission to be separately registered by 30 June 2019. Section 10(10)(a) of the BTCA provides that all subsidiaries for which applications were not received are deemed to have ceased to be listed in the schedule of the licensee's licence.

The breakdown of licensees by licence type is given below.
Licensees by Licence Type 2018 - 2019

No. of Licensees 2016 - 2019					
Licence Type	31-Dec-2018	Licences issued in 2019	Licences Reclassified 2019	Licences Cancelled in 2019	No. of Licensees as at 31-Dec-2019
General Banking	6	0	0	0	6
Financing and Money Services Business	5	0	0	0	5
Restricted Class I Banking	1	0	0	0	1
Class I Trust	59	4	-1	-3	59
Class II Trust	22	7	-1	0	28
Class III	18	3	0	-1	20
Class IV	0	0	0	0	0
Class V	0	0	0	0	0
Restricted Class II Trust	54	10	0	-4	60
Restricted Class III	0	73	0	0	73
Company Management	18	0	0	0	18
Authorised Custodian	6	0	0	-3	3
Total	189	97	-2	-11	273

FIDUCIARY SERVICES UNIT

By the end of 2019, the team completed or progressed some of the following projects, initiatives and activities:

(a) Subsidiaries Removal Project;

(b) Non-Executive and Resident Director Projects;

(c) Audited Financial Statements Project;

(d) Risk-Rating under the Commission's Risk-Based Supervisory Framework;

(e) Group of International Finance Centre Supervisors ("GIFCS") evaluation of the BVI's Trust and Corporate Service Providers; and

(f) Industry Master Course in Compliance Training

Subsidiaries Removal Project – The Team's activities in 2019 continued to be dominated by the project to remove all subsidiaries from licensees' licences. As a result, the downward trajectory in the number of licensees was halted since the majority of licensees opted for their subsidiaries to obtain a licence.

Subsidiaries Removal Project in Numbers	
Data	**Description**
59	licensees with subsidiaries on their licences
223	subsidiaries on licensees' licences
(14%) 32	subsidiaries with registered agent status
(86%) 191	subsidiaries with no registered agent status

Non-Executive Director Project - This project aimed to ensure that all Class I trust licensees have appointed a non-executive director in accordance with section 19(2)(b) of the Regulatory Code, 2009.

Resident Director Project – The objective of this project was to ensure that all Class I trust licensees have appointed a resident director pursuant to section 19(4)(b) of the Regulatory Code, 2009. The findings of the project are given below.

Resident Director Project Findings	
Data*	**Description**
58	No. of CITLs
54	No. of CITLs that had appointed a resident director
1	No. of CITLs that did not appoint a resident director (The Licensee indicated that when granted a General Trust Licence in 1996, there was no Resident Director rule. They subsequently sought approval to appoint a Resident Director.)
3	No. of licensees with issues, including contraventions, which they sought to resolve by submitting applications to appoint a non-executive director

Audited Financial Statements Project – This project commenced in July 2019 and is ongoing. The aim is to gain insight into the profitability and overall financial health of licensees over time.

Industry Master Course in Compliance Training – The Commission, in collaboration with the Financial Services Institute ("FSI") at the H. Lavity Stoutt Community College, conducted another master course in compliance from 30th April to 23rd May 2019. The Fiduciary Services Team performed all administrative work. An examination was administered on 21st May (Cohort 1) and 23rd May 2019 (Cohort 2).

RISK RATING OF LICENSEES UNDER THE COMMISSIONS' RISK-BASED SUPERVISORY FRAMEWORK

In Quarter 4, the Team completed an exercise to assess the risk presented by licensees as required by the Commission's Risk-Based Supervisory Framework. Licensees were put in "buckets" according to ir risk-rating. As at end of Q4, 2019, 94% of all licensees were placed in either Bucket 1 or 2, i.e. they were rated either low or medium low risk. Seventeen licensees (5.88%) were rated medium high risk and one licensee (0.35%) was rated high risk.

INTERNATIONAL PARTICIPATION

Group of International Finance Centre Supervisors ("GIFCS") evaluation of the BVI's TCSPs – In January 2019, the formal assessment of the BVI's compliance with the GIFCS TCSP Standard commenced with the fact-gathering exercise aimed at considering the BVI's technical compliance with the Standard as well as the effectiveness with which it is implementing relevant aspects of the regime. The Policy, Research and Statistics Division completed the assessment questionnaire with support from The Team.

The Team also assisted with the preparations for and coordination of the GIFCS on-site evaluation during the week of 11th – 15th November 2019 and were interviewed by the Assessors.

In October 2019, two members of the Fiduciary Services Team participated in two (2) GIFCS TCSP Supervisory Colleges in London.

BANKING SECTOR

This section of the report is specific to the supervisory activities of the Banking Unit and includes regulatory issues and developments, statistical data and analysis on all licensed banks and money services businesses and the related supervisory activities. The report also considers the financial performance of the banking sector and money services businesses.

At the close of 2019, the BVI's banking sector comprised seven banks: six commercial banks and one restricted bank.

Asset Quality – The industry's non-performing loans fell by 21.3% from $125.5 million at end of 2018 to $98.8 million at the close of 2019. The ratio of Non-Performing Loans to Total loans also improved from 9.86% at the end of 2018 to 7.09% at the close of 2019. Loan Loss Reserves increased from $17.8 million to $18.3 million year-on-year ("YoY"). This was mainly due to some of the Banks re-evaluating customer assets pledged as security and where the value of the assets had decreased, the Banks commensurately increased provision for losses.

Balance Sheet – On a consolidated basis, the banking sector's total asset size at close of 2019 was approximately $2.44 billion, an increase of 3% over 2018 ($2.37 billion). The balance sheet reflected changes YoY as shown below. There were increases in every asset class except Cash Items, which fell by 10%.

Aggregate Balance Sheet - US$ Millions

Asset	2018	2019	Percentage Change
Cash Items	917.3	823.8	-10%
Marketable Securities (up to 1 yr. original maturity)	10.0	15.5	55%
Loans and Advances	1,268.4	1,393.5	10%
Investments	5.4	12.8	137%
Other Assets	172.2	195.3	13%
Total	**2,373.3**	**2,440.9**	**3%**

Income Statement – Retained earnings for Q4 2019 was $34.6 million, a small decline compared to 2018 ($35.2 million). This was due mainly to an increase in interest expense as Banks sought to become a little more competitive. Profitability continues to be stable, the primary factors being attributed to growth of income earned from fees, interest charged on assets and lower provision expense for losses.

Capital Adequacy – The Average Tier 1 Capital to Risk Weighted Asset Ratio was 43% at year-end 2019 (2018: 43%). Thus, BVI commercial banks remain adequately capitalized well above the minimum requirement of 12%.

Liquidity – Liquid assets as a percentage of total deposits fell from 45.5% in 2018 to 40.6% at the end of 2019. However, liquidity levels remain acceptable and the banks continue to demonstrate their ability to repay liabilities that can be claimed at short notice.

Liquidity condition of the banking sector 2018-2019

	Q4 2018	Q4 2019
Liquid Assets to Total Assets	39.07%	34.38%
Liquid Assets to Total Deposits	45.47%	40.58%
Total Loans to Total Assets	53.44%	57.09%
Total Loans to Total Deposits	62.19%	67.37%

Basel II/III Implementation – The Caribbean Technical Assistance Committee (CARTAC) held a training seminar on BVI Basel Framework Implementation Timeline, which was hosted by the Division in collaboration with CARTAC during the week of 25th – 29th March 2019. The purpose of the training was for the Commission to make appropriate decisions:

i) regarding options for regulatory capital calculation for different Pillar 1 risk exposures under Basel II/ III based on the nature, size, and complexity of the banking system, and current supervisory capacity; and

ii) regarding the development of supervisory competencies to facilitate and support the Basel II/III implementation process, and monitor the banks' compliance with the new capital adequacy requirements.

Another training session was envisioned for 2020 prior to the declaration of the Covid-19 pandemic in March 2020.

AUTHORISED CUSTODIAN REGIME

Three (3) authorised custodian licences were cancelled in 2019 as part of the Commission's plan to phase out the bearer share regime. Thus, at year-end, there were three (3) authorised custodian licensees, which are supervised by the Banking Team.

FINANCING AND MONEY SERVICES BUSINESS

As at 31st December 2019 there were three (3) financing services licensees and two (2) money services business licensees.

For the year 2019, $88.9 million was sent to foreign countries via 273,342 transactions. In stark contrast, during the year, the BVI only received $5.9 million in remittances. Thus, there was a net outflow of $84 million from the BVI via money services business licensees.

Money Transmission in 2019					
	Q1	Q2	Q3	Q4	2019
Money transmitted from BVI to Foreign Countries	$21.6m	$23.1m	$21.7m	$22.5m	**$88.9m**
No. of outgoing transactions	77,321	69,166	61,723	65,132	**273,342**
Average transaction value	$279	$334	$351	$345	**$325**
Money transmitted to BVI from Foreign Countries	$1.3m	$1.6m	$1.40m	1.6m	**$5.9m**

LEGISLATIVE AMENDMENTS

The Financing and Money Services (Amendment) Act, 2018, which was Gazetted on 4th October 2018, came into force on 1st March 2019. It reformed the old regime by modifying the definition of "financing business" to include the provision of pay day advances and consumer finance loans, and removing the restriction on the amount or value of the credit and pay day advances that may be given.

Consumer finance loans are restricted to between $5,000 and $25,000. The aim is to provide credit without affecting traditional providers or undercutting existing lenders. The definition of "financing business" was expanded to create seven different classes of licensees:

- Money transmission, including electronic and mobile payments
- Issuing, selling or redeeming money orders or traveller's cheques
- Financing business
- Financing lease
- Operating ATMs
- International financing and lending in the peer-to-peer FinTech market, including peer-to-business and business-to-business markets
- any other specified services.

The reforms recognise peer-to-peer FinTech business as a new area of international lending for BVI business companies. However, to maintain the good reputation of the Territory's financial services industry, additional measures for regulating and supervising this type of business and guarding against any potential abuse need to be developed.

The amendment also expands the definition of "money services business" to include the transmission of monetary value, including electronic money, mobile money and payments and other alternative methods. These are growing areas of money services business which the Territory needs to embrace.

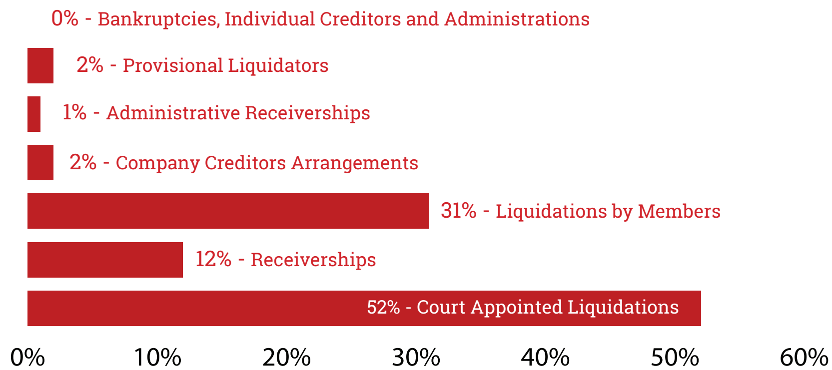
The Financial Services (Fees) (Amendment) Regulations, 2018 also came into force on 1st March 2019. It provides for new fees in respect of the new classes of licensees.

INSOLVENCY UNIT

The Insolvency Unit is responsible for the supervision of licensed insolvency practitioners in the BVI and the administration of insolvency legislation. At the end of 2019, the Unit supervised 28 licensed insolvency practitioners.
Cases handled by the unit include:

- Receiverships;
- Admin Receiverships;
- Company Creditor Arrangements;
- Administrations;
- Provisional Liquidations;
- Liquidations by Members;
- Liquidations by Court;
- Bankruptcies; and
- Individual Creditor Arrangements.

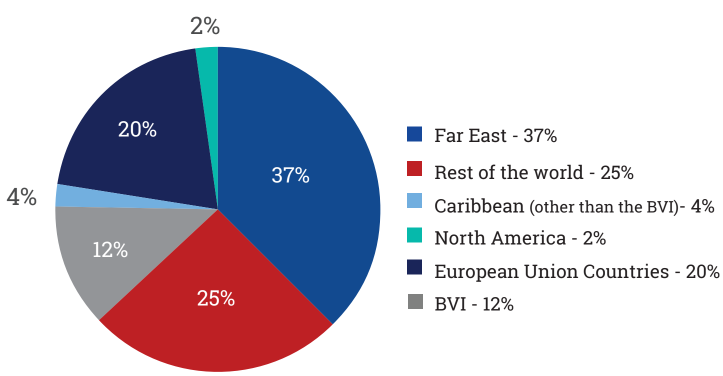
PERCENTAGE OF CASES IN PROGRESS BY CASE TYPE AT 31 DECEMBER, 2019



MAIN CENTRE OF OPERATIONS

Liquidations of BVI entities are routinely processed where the entity has a main centre of operation outside of the Territory. The main centre of operation for the majority of cases handled by the Unit is the Far East which represents 36% of all cases.

MAIN CENTRE OF OPERATIONS FOR NEW CASES 1 JANUARY, 2019 – 31 DECEMBER, 2019



Revenue recorded by the Insolvency Unit in 2019 increased slightly (by 1 %)compared to the previous year. The increase is nominal and indicates the activity within the Territory has remained consistent over the past year.

***Revenue Collected for 2019**

Fee Type	Quantity	Unit	Total
Annual Return Fees	27	$3,000.00	$81,000.00
New Application Fees	4	$300.00	$1,200.00
Licences issued before 2019 June 30	2	3,000.00	$6,000.00
1 Licences issued after 2019 July	3	$1,500.00	$4,500.00
2019 Total Revenue collected for			**$92,700.00**

*Statistics based on annual returns filed by Insolvency Practicitioners.

During 2019, there were 16 Reports to the Official Receiver. Seven of the reports were preliminary reports, four were first interim reports to Creditors and five were director's conduct reports. No adverse information was disclosed in the Reports to the Official Receiver.

JOINT OVERSEAS INSOLVENCY PRACTITIONERS

Overseas practitioners are required to be appointed jointly with BVI practitioners to mitigate the risk in asset recovery in the jurisdiction in which such assets are located. In 2019 the Unit received 46 notices to appoint a joint overseas insolvency practitioners under s. 483 of the Insolvency Act, 2003, which represents a slight increase from 2018. Overseas Practitioners must have sufficient qualifications and security to execute their functions. All appointments were approved. Most notices to appoint a joint overseas insolvency practitioner were from Hong Kong which accounted for 47% of all notices. Other jurisdictions include: Bermuda, Cayman Islands, United Kingdom and Singapore.

RESOURCING

The dedicated staff complement for the Unit remained unchanged, with two persons: the Deputy Director, as head of the unit, and an Administrative Assistant.

INSOLVENCY SURPLUS ACCOUNT

The Insolvency Surplus Account (ISA) is described in section 327 of the Insolvency Rules, 2005. In 2019 there was one deposit to the ISA. No disbursements were made.

The Recovery & Insolvency Specialists Association, BVI (RISA BVI) is a local recovery and insolvency organisation with a focus on professional development for recovery and insolvency practitioners. RISA BVI held several training events in the BVI during 2019. Two notable events coordinated through RISA BVI were the South Square and RISA Restructuring & Insolvency Conference and the Basic Court Liquidations for Insolvency Practitioners.

COMPLIANCE INSPECTION UNIT

During the year, the Commission continued its programme of onsite compliance inspections, which has been active since 2002 and was established as a dedicated unit in 2012. Fourteen (14) compliance inspections were conducted by the team of inspectors. The inspections included licensees with business operations across the five regulated business sectors: Investment Business, Money Services, Insurance, Banking and Fiduciary Services.

The Commission builds its compliance inspection schedule from the output of its Risk-based Framework and it evidences an evaluation of risks and impact assessments. The risk assessment involves identifying, analysing and evaluating risk with a view to determining the likelihood of that risk's manifestation. These findings are then tallied and the Licensee is assigned an overall score and rating. Once the risk evaluation is completed, the licensee is then subjected to an impact review to determine its level of systemic importance. In determining systemic importance, a licensee is assessed against a broad criteria that seeks to evaluate the nature, size and complexity of the business operations.

- Client base (size of client base/vulnerability of client base);
- Interconnectedness (direct relationships/ intermediaries);
- Substitutability;
- Complexity; and
- Jurisdiction Reputation.

This assessment concludes with a composite score and rating. The scores from the risk and impact review are then combined to determine which 'risk bucket' a Licensee falls within. The Commission's Risk-based Framework includes five buckets or categories. Bucket one represents the lowest level of risk and bucket five represents the highest level of risk. The Framework provides several supervisory strategies to manage and mitigate the risk posed by a licensee based on its placement.

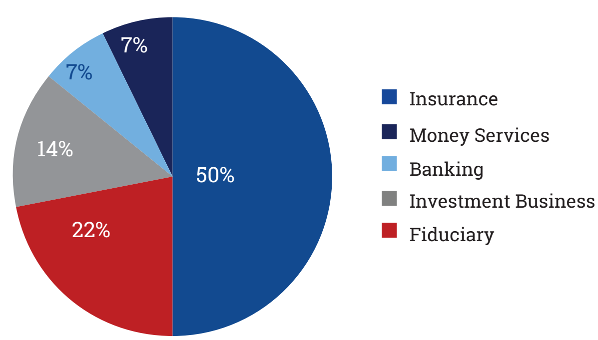
CONDUCT OF INSPECTIONS

The Risk-based Framework provides general guidance for determining the type of compliance inspection that the Commission will undertake. For example, generally, thematic inspections are appropriate for the business operations of regulated firms that have been risk evaluated as bucket 2 licensees or higher. Full scope inspections are generally recommended and applied for Licensees in Risk Bucket 3 and higher. Licensees that are evaluated for placement in Risk Bucket 1, are routinely subject to desk-based monitoring within the Commission.

Other factors which inform the selection process for onsite inspections include: the rate of non-compliance with relevant legislation, the results from inspections previously undertaken, deliberations relevant matters of the Enforcement Committee and the results of internal monitoring activity and intelligence generated from desk-based supervision.

COMPLIANCE INSPECTION BY TYPE	
Full Inspections	6
Thematic	8
Follow Up	0
Total	14

The distribution of the fourteen (14) On-site Compliance inspections conducted across sectors in 2019 reflects coverage of 50% for Money Services and Banking sectors, 5% of the Insurance sector, 1% of the Fiduciary sector and .5% of the Investment Business sector.[1]



[1] Percentages based on aggregate size of each sector as at the end of 2019.

FULL SCOPE INSPECTION

A full scope inspection represents a review of the full operations and lines of business of the licensee. Six (6) such inspections were conducted in 2019. Five of the Licensees subject to inspection this year were inspected at least once prior to 2019 and one (1) was inspected for the first time.

Each of these inspections assessed the following areas in addition to AML/CFT related matters:

- Operations
- Complaints handling
- Corporate governance
- Responsibility of the board and senior management
- Business continuity
- Information systems
- Compliance
- Internal controls
- Transactions
- AML/CFT

TYPE OF LICENSE SUBJECT TO A FULL-SCOPE INSPECTION IN 2019

COMPLIANCE INSPECTION BY TYPE	
TYPE	**No. of Licensees**
Banking	1[2]
Fiduciary	3[3]
Money Services	1[4]
Insolvency	0
Insurance	1[5]
Investment	0
Total	**6**

THEMED OR LIMITED SCOPE INSPECTION

A themed or limited scope inspection is focused on a review of a particular line of business, a specific area of business operations or the review of a particular function carried out by the Licensee. Five (5) of the licensees subject to inspection this year were inspected at least once prior to 2019 and three (3) were inspected for the first time. The thematic inspections carried out were within the Insurance and Investment Business sectors.

The thematic inspections within the Insurance sector focused on the following:

- Complaints Policy and Procedures;
- Claims Handling;
- Business Continuity Plan; and
- Information Systems.

The thematic inspections within the Investment Business sector focused on the following:

- Responsibilities of the Board and Senior Management;
- Business Continuity Plan;
- Complaints Policy and Procedures;
- Requirement to Establish a System of Internal Controls (AML);
- Risk Management and Systems of Controls (Operational/Core Business);
- Requirements of Customer Due Diligence;
- Requirements of Enhanced Customer Due Diligence;
- Requirement to Update Customer Due Diligence Information; and
- Information Systems.

2 Licensee offers individual and commercial deposit accounts, loans (unsecured, partial guarantee loan/secured loan), lines of credit, Certificate of Deposits, IRA, wire transfers, purchase and sales of monetary instruments, foreign currency exchanges, mortgages.
3 Licensees collectively had approximately 61,050 companies under mandate.
4 Client base is 90% resident and 10% non-resident.
5 Licensee had 721 policies as at the end of 2018.

TYPE OF LICENSE SUBJECT TO A THEMED OR LIMITED SCOPE INSPECTION IN 2019

COMPLIANCE INSPECTION BY TYPE	
TYPE	**No. of Licensees**
Banking	0
Fiduciary	0
Money Services	0
Insolvency	0
Insurance	6
Investment	2
Total	8

At the conclusion of the compliance inspection cycle, the Commission issues a comprehensive report to the licensee. These inspection reports detail varying corrective actions that licensed entities are required to implement within specific timeframes. Simultaneously, the Commission may levy enforcement action for breaches of financial services legislation. For inspection reports issued in 2019, administrative penalties were proposed for three (3) Licensees and warning letters proposed for two (2) Licensees for various breaches of financial services legislation.

SECTOR REPORTS

As part of the cross-function management of risks related to the authorisation and supervision of entities licensed by the Commission, the Compliance Unit prepared a comprehensive sector report which was shared strategically to the Commission's AML Unit. Average ratings assessed for the areas covered in 2019 inspections are average with a predominant mix of ratings that were largely and partially compliant.

COMPLIANCE INSPECTION BY TYPE	
Areas Reviewed	**Average Rating**
Overall Assessment	
Risk Assessment Customer, Product/Service & Country/) (Geographic	Largely Compliant
Requirement to Establish a System of Internal Controls	Partially Compliant
Internal Testing	Partially Compliant
Reliance on Third Parties	Largely Compliant
Third Party Relationship Agreements	Partially Compliant
Obligation to Test Business Relationship Agreements	Partially Compliant
Requirements of Customer Due Diligence	Partially Compliant
Requirements of Enhanced Customer Due Diligence	Partially Compliant
Requirement to Update Customer Due Diligence	Partially Compliant
General Verification	Partially Compliant
Verification of Individuals	Partially Compliant
Verification of Legal Persons	Partially Compliant
Verification of Trusts	Largely Compliant
Compliance Manual	Largely Compliant
Reporting a Suspicion	Largely Compliant
Requirements of Certified Documentation	Partially Compliant
Register of Enquiries made to and received from the Agency	Largely Compliant
Compliance Officer	Largely Compliant
Reporting Officer	Largely Compliant
Staff Education and Training	Largely Compliant
Records, Record Keeping and Retrieval	Largely Compliant
Corporate Governance	Largely Compliant
Responsibilities of Board and Senior Management	Largely Compliant

The Commission intends to publish a detailed report of the Compliance Inspection findings in 2020.

The cumulative findings from the aggregate report on compliance inspections will provide further information for the Commission to assess the probability and potential impact of risks posed by firms sector and inform the development of the Commission's strategic objectives to abate any identified risks.

From the report, the Commission will also be able to identify common issues across the industry and to capture the recurring issues in its risk registers. The information will then be used for more effective monitoring of licensees and to design appropriate and proportionate risk treatments. For example, findings will ensure that future master classes arranged by the Commission devote focus to areas where Licensees have not demonstrated sufficient improvement. The findings will also assist with ensuring that themed inspections carried out by the Compliance Unit focus on the most deficient and critical areas. With this information, questionnaires issued by the Commission will be able to collect information on areas where there appear to be gaps and the legislative agenda can be developed to remedy material concerns.

The sector reports also allow the Commission to assess the effectiveness of remedial actions, the level of dissuasiveness of enforcement penalties, and ultimately, the extent to which behaviour has been modified, consistent with the Commission's risk tolerance.

One notable finding with respect to general change in industry environment relates to third party relationships. Specifically, the data reflects that there has been a significant decrease in the number of third-party relationships maintained within the sector over the years. An average 39% decrease in third party relationships has been observed over relevant periods.

INVESTMENT BUSINESS

INVESTMENT BUSINESS DIVISION

The Investment Business Division is responsible for administering the securities and investment business regulatory framework in the Territory. The Division is tasked with protecting the interests of the general public and market participants while ensuring that licensees comply with international regulatory standards and best practices and to assist in the prevention of cross-border white collar-crime in the exercise of its two overarching functions of: authorisation and supervision.

Authorisation involves the processing of applications and issuing recommendations to the Commission's Licensing and Supervisory Committee on the issue (or non-issue) of a licence.

In 2019, the Division continued to focus resources on risk-based supervision of its licensees. This led to the preliminary appointment of relationship mangers to 18% of the Division's licensees. In the fourth quarter of 2019, the Division completed impact assessments of all active licensees. The results of this work has prioritised two initiatives to be undertaken by the division in 2020:

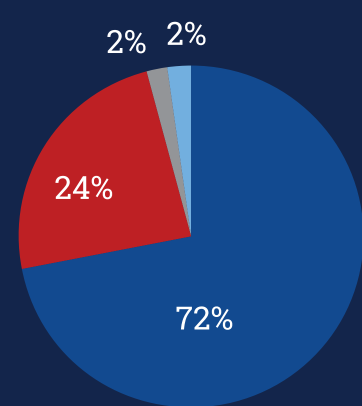
1. Cancellation of a significant number of non-active licensees; and

2. Review of distribution of licensees initially identified as supervisory priority licensees for the Division.

The Division expends the highest volume of its resources to the supervision of entities in higher risk categories (buckets 3 and 4 currently). Relationship managers are appointed to monitor and supervise each of these licensees closely whilst licensees in Buckets 1 and 2 continue to be subjected to routine monitoring and supervision.

An overview of the Division's risk distribution is outlined below:

- 96% of licensees fell in to Bucket 1 and Bucket 2 (72 % and 24% respectively)
- 2% of licensees in Bucket 3;
- 2% of licensees in Bucket 4; and
- 0 Licensees in Bucket 5.



Financial Technology (FinTech) continued to be of interest to the division during 2019. The Division identified the need for the Commission to develop regulatory capacity to appropriately supervise FinTech business models which fall under the scope of the Act, and the need for the Commission to leverage the benefits of FinTech pioneering the next generation of tools and techniques for regulation, market supervision and supervisory data analysis.

The Division worked in 2019 on developing a supervisory approach to satisfy the EU based unfair tax practices initiatives (Economic Substance). Following extensive negotiations with the EU, new legislation and several legislative amendments were introduced. This brought private investment funds (i.e. close ended funds) within the Commission's regulatory scope.

There was a noted contraction in the number of market participants in 2019 as in previous years. The Division specifically observed that the number of licensees under its remit decreased by 5% from 2018, while the number of mutual funds decreased by 1% in 2019.

EXTERNAL STAKEHOLDER ENGAGEMENT

The Division continues to prioritize its engagement with external stakeholders in an effort to ensure that the expectations of the Commission are properly communicated to the industry. This ongoing engagement provides for a more collaborative approach in the introduction of significant legislative changes. In 2019 external stakeholder engagement took the form of presentations at the Commission's Meet the Regulator Forum as well as consultation with Advisory Committees. The Securities and Investment Act Advisory Committee was reconstituted in 2019 to provide advice on the proposed amendments to SIIBA and the issuing of secondary legislation in relation to the supervision of private funds.

INTERNATIONAL PARTICIPATION

The Division participated in several training opportunities and members' meetings with standard setting bodies in 2019. Cross border collaboration is a priority of the Division as it ensures that the Commission remains current with the industry developments and that the jurisdiction is compliant with international standards.

Some of the 2019 international activities which the Division participated in are:

- Caribbean Group of Securities Regulators Annual Members Meeting and Training;
- CGSR FinTech Working Group monthly meetings;
- International Organisation of Securities Commission annual training;
- Inter-American Regional Committee (IARC) (IOSCO) annual meeting and training;
- Caribbean Financial Action Task Force (CFATF) Plenaries;
- Offshore Alerts 16th Annual Conference;
- Caribbean Group of Banking Supervisors' Annual Conference and Supervisory College;
- Toronto Center FinTech Training;
- International Forum for Investor Education (IFIE); and
- Assistance with completion of surveys issued by IOSCO, FATF, CFATF and FSB.

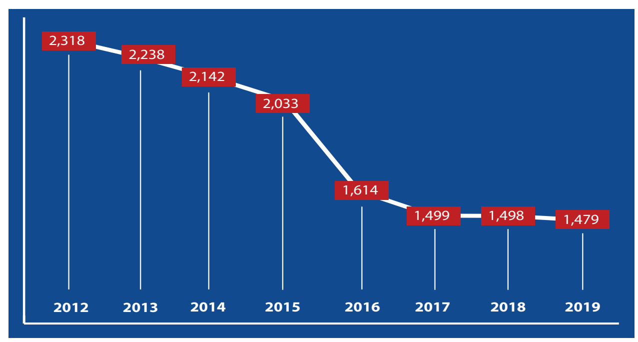
MUTUAL FUNDS

Mutual Funds Under Remit by Fund Type

	2019	2018	2017
Funds under Remit	1479	1498	1499
Professional Funds	920	955	1007
Private Funds	319	329	340
Public Funds	33	44	48
Foreign Funds	6	6	6
Incubator Funds	79	66	41
Approved Funds	122	98	57

Professional funds, together with Private funds make up 48% of all funds authorised.

Since 2013 the Division has noticed a decline in the mutual funds industry.



RESOURCING

At the end of 2019 there were eleven dedicated members of staff assigned to the Division. Members of the team include: the Director, Deputy Director, a Senior Regulator, eight Regulators and an administrative assistant.

OUTLOOK

Staff training will continue to be a priority in 2020. The financial services industry, and in particular, securities and investment products, continue to develop and evolve as financial technology continues to enable novel, decentralised business models. As a result, new supervisory issues and risks have come into focus. Supervision of these products will require staff to improve on current skillsets by attaining training regarding these new business models and attain relevant qualifications and certifications.

The Commission intends to implement initiatives, organisational reform and prepare for the 4th round CFATF mutual evaluation. The Division will continue to focus and dedicate significant resources on the implementation of initiatives to satisfy recommendations made in the National Risk Assessment Report.

INSURANCE

The Insurance Division of the Commission is responsible for the regulation and supervision of entities licensed by the Commission through the Insurance Act and other applicable financial services legislation. Entities licensed to conduct insurance business and related activities include: domestic insurers, captive insurers, insurance intermediaries (insurance agents and insurance brokers), insurance managers and loss adjusters. Regulation and supervision of the sector comprises desk-based (off-site) and on-site monitoring through the conduct of compliance inspections to ensure compliance by licensees of BVI legislation, prudential standards and internationally accepted best practices.

RELEVANT INSURANCE SECTOR LEGISLATION

- Insurance Act, 2008
- Insurance (Amendment) Act, 2015
- Insurance Regulations, 2009
- Insurance (Amendment) Regulations, 2015
- Regulatory Code, 2009
- Insurance Guidelines, 2016

CAPTIVE INSURANCE

The captive insurance sector continued to experience a decline in the number of captives licensed in 2019 when compared to 2018. At the end of 2019, there were 59 captive insurers registered, which was a 20% decrease from 2018.

Captives Licensed in 2019

Company Type	No. of Licensees 1st Qtr. 2019	No. of Licensees 2nd Qtr. 2019	No. of Licensees 3rd Qtr. 2019	No. of Licensees 4th Qtr. 2019
Captives	67	65	60	59

Gross written premiums and net written premiums by captive insurers in 2018 decreased slightly in comparison to 2017 where the gross written premiums and net written premiums were $343,088,110 and $336,392,921, respectively.

Captive Insurers Business Written 2019

Gross Written Premiums	**$306,512,947**
New Written Premiums	$302,497,620
Claims Incurred	$73,615,057
Underwriting Results	$19,931,259
Gross Assets	$1,178,451,204
Allowable Assets	$658,565,864
Net Worth	$597,309,389

DOMESTIC INSURANCE

The British Virgin Islands domestic insurance market remained stable in 2019 with its continued licensing of 39 insurers.

Domestics Licensed in 2019

Company Type	No. of Licensees 1st Qtr. 2019	No. of Licensees 2nd Qtr. 2019	No. of Licensees 3rd Qtr. 2019	No. of Licensees 4th Qtr. 2019
Domestics	39	39	39	39

Guided by the core principles from the guidelines of the International Association of Insurance Supervisors, the BVI drafted a new Code of Conduct for Insurers and Insurance Intermediaries.

Some of the general aims of the Code of Conduct are to:

- increase public trust and customer confidence in the British Virgin Islands' insurance market;
- protect policyholders and promote fair consumer outcomes; and
- increase transparency within the insurance sector.

The Code of Conduct will improve customers' understanding of what they can reasonably expect from insurers and intermediaries. It will also promote a level playing field amongst insurers and intermediaries. Members of the Domestic Insurance Advisory Council ("DIAC") were consulted during 2019 and provided feedback on the draft Code of Conduct. The feedback from the consultation is being reviewed and where appropriate, incorporated into the draft Code of Conduct.

The insurance for Gross Written Premiums for health insurance in 2018 was $7,491,828 compared to $8,200,980 in 2017. Continuing changes in the environment, which include the introduction of the National Health Insurance programme in 2016 continue to affect the Gross Written Premium for health insurance.

The Division continued to engage in the enhanced supervision of the domestic insurers. Insurer A was in liquidation and completed the winding up of its business in 2019. However, as the liquidation of the insurance business in the home jurisdiction has not been completed, the revocation of the license for Insurer A remains pending.

Insurer B was placed into liquidation by its home regulator. The winding up of its affairs, including the settlement of outstanding insurance claims resulting from the 2017 weather related events, are being handled by the Courts in the jurisdiction.

Intermediaries Licensed in 2019

Intermediaries	No. of Licensees 1st Qtr. 2019	No. of Licensees 2nd Qtr. 2019	No. of Licensees 3rd Qtr. 2019	No. of Licensees 4th Qtr. 2019
Insurance Agents	14	14	14	14
Insurance Brokers	4	4	4	4
Insurance Managers	9	9	8	7
Loss Adjusters	16	16	16	16

The total licensed insurance managers at the end of 2019 decreased by 30% in 2019. The insurance managers who ceased business cited business decisions that it was no longer feasible to maintain insurance management as part of their operations as their reason for discontinuing.

Insurance intermediaries continue to track claims settlement resulting from the afore-mentioned 2017 weather related events.

HUMAN RESOURCES

The Division's employee complement in 2019 remained the same as in 2018 comprising of a team of 5. The staff complement was temporarily boosted by the assignment of a summer intern, as part of the Commission's annual internship programme. The intern was given a professional development opportunity to be exposed to the basics of insurance supervision and to assist with routine review of financial statements field by the Commission's licensees.

INSURANCE TRIBUNAL

The Insurance Tribunal which was formed following the catastrophic events of 2017 and upon the enactment of the Financial Services (Continuity of Business) Act, 2017 continued to function by receiving and investigating reports of persons who are aggrieved by a decision of an insurer with respect to a claim and to mediate between the insurer and the insured to reach an amicable settlement. The Insurance Tribunal also prepared semi-annual reports to the Commission highlighting areas of common concern which were taken into consideration in the drafting of the Code of Conduct.

EXTERNAL RELATIONS

The Division continues to be a member of regional and international organisations including: International Association of Insurance Supervisors (IAIS), Group of International Insurance Centre Supervisors ("GIICS") and Caribbean Association of Insurance Regulators ("CAIR"). These relationships help the division remain current on supervisory developments and approaches in insurance regulation and supervision.

In 2019 members of the Division attended and participated in the CAIR training covering topics such as an Introduction to IFRS 17 and Financial Stability, IFRS 17 Implications for Insurers and Regulatory Considerations: IFRS 17 and the International Core Principles of the IAIS. IFRS 17 is a major area of focus as it impacts the reporting standings of audited financial statements and policies such as where mind and management are located to effectively regulate insurers.

BVI FSC (HK) LIMITED HONG KONG OFFICE

BVI FSC HK is a limited company incorporated in Hong Kong, SAR that represents the regulatory interests of the BVI Financial Services Commission throughout Asia. Through its physical presence in Asia, the Commission can maintain and service key business relationships and provide liaison services to clients based in Asia more efficiently. This includes the ability to be more responsive to the needs of clients in these markets.

The Commission's Asia Representative Office develops and maintains effective relationships with regional regulatory authorities in Asia. The Office is best poised to respond to media inquiries and participate in media interviews which promote the work of the Commission in the Region. Additionally the Asia Representative serves as a liaison officer and point of contact between the Commission and entities licensed under BVI financial services legislation.

The Office continues to provide an invaluable service through the provision of printed certifications from the Registry of Corporate Affairs at its office in Hong Kong. The most frequent certificates requested from the office are Certificates of Incorporation and Certificates of Good Standing. Both certificates represent 49% of the certificates printed at the office, and collectively 98% of the transactions managed through the Asia Representative Office.

The Office regularly collaborates with the BVI Government's Office in Asia. In 2019, the Office participated in several meetings regarding Economic Substance for BVI entities.

3
Outreach

18
Conferences

27,483
Certificates

AML UNIT

In September 2019 the Commission established its Anti-money Laundering Unit (the AML Unit) with the strategic purpose of enhancing the role and authority of the Commission as the primary AML supervisor for the financial services industry. The objective of the AML Unit is to enhance compliance with the Territory's AML regime by entities operating within the financial services sector. The AML Unit is tasked with the responsibility to develop and implement the Commission's AML supervisory strategy consistent with international standards. The Unit has been tasked, inter alia, with the following objectives:

- developing and enhancing AML/CFT related policies and procedures and participating in revising AML/CFT strategies and legislation where necessary;
- working with the supervisory divisions to achieve a coordinated, robust and consistent approach to AML/CFT supervision;
- engaging the private sector to enhance awareness of emerging ML/TF/PF risks;
- ensuring the development, coordination and implementation of AML/CFT training programmes;
- collecting, analyzing and maintaining data to enhance the Commission's understanding of the ML/TF risks associated with financial services; and
- developing and maintaining relationships regional and international regulatory bodies and agencies.

The initial staff complement comprises the Deputy Director AML/CFT as head of the AML Unit and temporary assignment of a second management level resource.

Between its inception and the end of 2019, the Unit executed several tasks in pursuit of its objectives, all aimed at strengthening the Commission's AML/CFT regime. These tasks were based on an agreed Work Plan developed by the Unit.

ACHIEVEMENTS

Policy Enhancement

Commission's AML Policy and Strategy

The development of the Commission's AML/CFT policy and strategy is key to strengthening the Commission's AML/CFT regime. The Policy is aimed at strengthening the Commission's supervisory, enforcement, and domestic and international co-operation regime, and assists in preventing money laundering and any activity that facilitates money laundering, the funding of terrorists or other criminal activities in or from within the Virgin Islands. The Strategy, which is informed by, and designed to address, the broad areas identified in the Policy, is a three-year road map for the period 2020 to 2022, which will be used by the Commission to implement effective measures across the board to combat ML, TF and PF risks inherent in the financial services sector. The ultimate goal of the strategy is to uphold the Commission as an effective regulator, and advance the Virgin Islands as a secure and well-regulated international financial centre, effective in mitigating against ML, TF and PF.

In early 2020, the proposed AML strategy will be presented to the Board of Commissioners for its approval and implementation will continue with issue of the strategy through publication on the Commission's website. The AML strategy serves the dual purpose of informing and educating employees on the Commission's strategic approach to AML/CFT matters and providing guidance to service firms and practitioners in the financial services industry. The private sector industry in particular should find the strategy helpful in evaluating and assessing AML/CFT risks in developing individual risk frameworks and articulating risk tolerance and assessments at the firm level.

Industry Guidelines

In December 2019, the Unit also began its review of various industry guidelines that are being developed by the Policy Research and Statistics Division. The in-progress guidelines address matters relevant to the banking and trust and corporate services provider sectors, and address matters related to Beneficial Ownership and Politically Exposed Persons. These guidelines, once issued, will assist the industry to more effectively manage specific AML/CFT related considerations and decisions in relation to their business operations. , The proposed guidelines will also assist licensed firms with increasing awareness of and compliance with AML/CFT obligations.

Legislative Reform

The AML Unit is responsible for ensuring the AML/CFT legislative framework complies with relevant international standards. During the year, the AML Unit reviewed the recommendations for legislative reform outlined in the Virgin Islands' 2016 NRA Report. This review was undertaken with to the aim of proposing necessary legislative reform where gaps were identified. The gap analysis was performed as a means of strengthening the regime and ensuring compliance with FATF Recommendations. The result of this review was the contribution of a position paper to the external VI Council of Competent Authorities for consideration and then further consideration and request for approval to the National AML/CFT Coordinating Council (NAMLCC). We anticipate that the proposed legislative reform and development will help shape the Government's AML/CFT legislative agenda for 2020.

Additionally, the AML Unit also serves on the CCA working group established to develop counter-terrorism and terrorism financing legislation for the Territory to comply with international standards on counter-terrorism and terrorism financing measures. The output from the working group is a draft Bill which we expect will be finalized in early 2020.

Data Collection and Analysis

Data is vital to understanding ML/TF/PF risk. It is therefore important that accurate statistics are maintained and analysed to allow for proper understanding and mitigation of such risks. To ensure relevant ML/TF/PF data is being recorded by the Commission, the AML Unit transposed the data captured in the 2016 NRA Report to allow for update and comparison with data currently being captured by the VI Inter-governmental Committee on AML/CFT Matters (IGC). The availability of this dataset contributed by the Commission, will ensure that the necessary data is being collected to inform on the Territory's effectiveness in mitigating its ML/TF/PF/ risks. To fulfil the Commission's internal AML/CFT statistical requirements, the Unit established a central repository for AML/CFT statistics and has developed statistical templates. The focus on centralized AML/CFT data aids the internal collection of relevant AML statistics across the Commission.

Training

The Unit collaborated with the Training and Development unit of the Human Resources Division to develop and administer an online assessment to evaluate employee understanding of AML/CFT knowledge. The initial online assessment was preparation for the Commission's annual AML training which is due to occur in early 2020. The training is an annual requirement for all employees and guarantees that every employee is exposed at some level to the legislative and regulatory requirements of the Territory's AML/CFT regime.

In November 2019, the AML Unit also represented the Commission in discussions with the FATF Secretariat to arrange AML/CFT training in 2020. Following successful negotiations, the AML Unit secured a commitment for a week of Standards training in the second quarter of 2020. The standards training will benefit the Commission as well as other Competent Authorities and law enforcement agencies within the Territory. This training would enhance understanding of the FATF standards on AML/CFT and the implementation of effective measures for participating agencies.

National Risk Assessment Action Plan

The AML Unit also leads implementation of the Commission's Action Plan to address the recommendations emanating from the Territory's 2016 National Risk Assessment report. The Action Plan is part of overall preparations for the Territory's AML/CFT Mutual Evaluation by the CFATF in 2021. The AML Unit provides support and guidance to internal divisions by reviewing submissions and advising on improvements, and has participated in the development of the AML Questionnaire and finalisation of the AML Explanatory Notes for the Risk Assessment Framework.

Sectoral AML Risk Assessments

The AML Unit has developed a methodology to allow for the execution of sectoral AML risk assessments for a number of sectors, which are to be conducted in 2020. These sectoral assessments will build on the results of the 2016 NRA, and provide a more current assessment of the AML/CFT risk within areas such as those operated by DNFBPs, financial institutions and NPOs. Results of these sectoral assessments will be published as understanding these risks will allow for proper mitigation strategies to be put in place, not only by the Commission but by industry practitioners thereby strengthening the overall AML/CFT regime.

External Representation

In November, 2019 the Deputy Director attended the CFATF Plenary and Working Group meetings in Antigua, primarily to observe the deliberations of the two Mutual Evaluation Reports that were presented at that Plenary. Exposure to that process provided the Unit with a greater understanding of some of the potential issues that the Commission as supervisor, and the Territory generally, may face during its own Mutual Evaluation, and provides an opportunity to address these matters prior to the on-site visit by the assessors.

2020 Outlook

2020 is predicted to be an eventful time for the AML Unit as it signals the start of the pre-assessment period for the Territory's 2021 Mutual Evaluation by the CFATF. In anticipation of this, the AML Unit will continue to monitor the Commission's progress in addressing the outstanding matters identified in the 2016 NRA and seek to ensure they are adequately actioned. The outstanding NRA matters are critical to demonstrating compliance with FATF standards. The AML Unit will also endeavor to ensure effective implementation of the Commission's AML/CFT policy and strategic objectives once approved, by monitoring the progress of the required actions to be taken by the parties responsible for each objective. Additionally, the Unit will embark on the gargantuan task of conducting updated sectoral AML risk assessments to provide an updated understanding of the Territory's ML/TF/PF risk in compliance with FATF Recommendation 1.

Data collection and analysis continues to be a challenge for the Commission. The AML Unit will endeavor to build on the work it began in 2019 to develop a more cohesive structure for collection and management and analysis of AML related data. It is hoped that this exercise will allow for identification and greater understanding of AML/CFT risks to which the BVI's financial services industry is exposed.

To ensure all Commission staff are exposed to appropriate AML/CFT training the AML Unit will facilitate the Commission's annual AML/CFT employee training in the first quarter of 2020 in conjunction with the Financial Services Institute. This will be followed by the presentation of FATF Standards training in quarter two, for the Territory's competent authorities and law enforcement agencies. The Unit also intends to meet its objective of engaging with the private sector to enhance awareness of current AML/CFT risks through participation in the Commission's Meet the Regulator forums, as well as via a series of information sessions with industry associations aimed at updating on the status of the implementation of the NRA recommendations and ongoing preparations for the 2021 CFATF Mutual Evaluation.

LEGAL DIVISION

The Legal Division is in-house counsel to the Commission. The Division routinely provides advice and litigation services to the Managing Director, the Board of Commissioners, the Registrar of Corporate Affairs, the Licensing Supervisory Committee and Enforcement Committee and the administrative and regulatory divisions of the Commission. During 2019 the Division provided legal advice on compliance inspection reports and contraventions of financial services legislation. The Division provides advice on regulatory and legislative breaches, as well as the powers available to the Commission's Enforcement Committee in all cases where enforcement action is considered or proposed.

The Division also provides advice to the Office of the Registrar of Trade Marks, Patents and Copyright on the interpretation of the intellectual property legislation which it administers. Other Units and the Divisions within the Commission also collaborate with the Division on the negotiation and drafting of Memoranda of Understanding with other BVI Competent Authorities, leases and contracts for services.

KEY STATISTICS/ DEVELOPMENTS

In 2019 the Legal Division was instructed in

131 new litigation cases.

86% of these cases were applications to the Court to restore dissolved companies, including a number of ongoing cases where the Commission has applied to the Court for the appointment of a liquidator for a BVI Company which it regulates.

The Division was pleased to be a part of the user adoption group that utilised the new e-litigation system introduced by the BVI Commercial Court. The system introduced new efficiencies to improve the administration of justice through the adoption of technological advances.

Litigation cases 2019

#	Legislation	No. of Cases
1	Para 57, Sch 2 - BCA	1
2	Section 207A - BCA	6
3	Litigation Outside of Jurisdiction	2
4	High Court Appeal FSAB Decision	1
5	Stop Notice	6
6	Section 218 - BCA	113
7	High Court Intervention for FSC	1
8	Freezing injunctions	1
	TOTAL	**131**

LEGEND

(1) Revocation of Dissolution of a former Act Company
(2) Termination of Voluntary liquidation
(3) Litigation outside of Jurisdiction in foreign court
(4) High Court Appeal - Financial Services Appeal Board (FSAB)
(5) Stop Notice
(6) Revocation of dissolution of a BC Company
(7) Intervention as an interested party
(8) Freezing Injunction

FINANCIAL SERVICES APPEAL BOARD

The Financial Services Appeal Board, which is external to the Commission, hears appeals by persons aggrieved by a decision made by the Commission under the Financial Services Commission Act, 2001, or any financial services legislation. No Notices of Appeal were filed for consideration by the Appeal Board in 2019. The Appeal Board had six cases which were brought forward from 2018. The Appellant in five of those cases indicated its intention to withdraw and abandon the appeals.

INTERNATIONAL COOPERATION

The Commission is a signatory and member of the International Organization of Securities Commission (IOSCO) Multi-Lateral Memorandum of Understanding concerning Consultation and Cooperation and Exchange of Information. The Legal Division manages all incoming and outgoing international cooperation requests received and issued by the Commission. The Commission's reputation as a cooperative jurisdiction is regularly recognised. Incoming requests from foreign regulatory and law enforcement authorities in 2019 were processed by the Division with an average response time of less than 15 days which is our benchmark target.

In 2019, the Commission received and processed 93 incoming requests from foreign regulatory and law enforcement authorities under various memoranda of understanding. The Commission made 5 requests for international cooperation during 2019.

The nature of International Cooperation requests usually relate to fitness and proprietary checks on authorised persons and licensees of the Commission and requests for information and documents from foreign regulatory authorities conducting investigations into suspected fraud, money laundering, insider trading, market manipulation and other types of financial crime.

The Commission also received 109 referrals seeking information and documents through its membership in the UK-based Financial Crime Information Network. Most of these referrals are from UK law enforcement authorities investigating money laundering, fraud and other types of financial crime.

In July 2019, the Ontario Securities Commission recognised and thanked the Commission for its assistance in an investigation of breaches of Ontario securities laws by a licensee, which resulted in a substantial Settlement Agreement including payment of an administrative penalty of Canadian $550,000, disgorgement of $37.5m and investigation costs of $25,000.

ENFORCEMENT DIVISION

The Enforcement Division conducts investigations into serious breaches of financial services legislation and, monitors financial services activity in or from within the Virgin Islands. The division leads administering enforcement actions as mandated by the Commission's Enforcement Committee. Throughout 2019, the Division pursued several priorities including:

- continued work on revising the structure of the Enforcement Regime;
- development of its resources and processes; and
- progression of enforcement cases

REVISIONS TO THE STRUCTURE OF THE ENFORCEMENT REGIME

The Division's key development during 2019 for this strategic priority focused on its continued reorganisation of the enforcement function. As part of the reorganisation, the enforcement function was separated from the legal grouping within the Commission. Consistent with this change, the Director and staff prioritised work on optimising the division's processes and advanced new proposals for greater harmonisation across the processes and procedures and across functional units of the Commission.

DEVELOPMENT OF ENFORCEMENT RESOURCES

The Division's reorganisation extended to placing a strong focus on the development of its human and digital resources. Once the Division's restructuring is fully adapted and implemented the team will have a core complement of multi-disciplinary and cross trained employees who will be able to handle all facets of the Commission's core business. At the end of 2019, the Division retained six employees. The increase in employee complement has allowed greater effectiveness in the operations of the Division and the management of the enforcement case load.

The Division also began several projects to improve data management and establish more robust case management strategies to manage the volume and complexity of enforcement cases.

PROGRESSION OF ENFORCEMENT CASES

The Enforcement Division receives matters from various sources including internal divisions and global regulatory counterparts. Cases which are referred to the Division relate to: complaints against regulated and non-regulated entities, enquiries, monitor/ surveillance of financial services activity in and from within the Territory and internal requests for screening of applicants seeking approval for appointment as senior officers of licensees.

The Division's primary enforcement activity focused on progressing new matters, as well as triaging and prioritising its ongoing cases. Below is a table setting out the number of new matters received by the Division.

TOTAL MATTERS RECEIVED 2019

Inquiries	Companies	Referrals from EC	Investigations
278	42	18	36

The majority of matters related to internal and external inquiries. External inquiries are generally in relation to entities or individuals purporting to carry on financial services business in or from within the Territory. The Division generally issues Public Statements that warn the general public not to engage in any type of business with persons who falsely purport to be authorised by the Commission to conduct financial services business. Internal inquiries are generated primarily from the Commission's Approved Persons Unit and are, due diligence reviews on the fitness and propriety of proposed senior officers and directors. The Division confirms within 24-48 hrs whether there is any untoward information on the proposed officers. The Division handled 278 inquiries in 2019.

The Division handled 41 complaints in 2019. The complaints related to both non-regulated and regulated entities and emanate from the public and other market participants. Where the complaint is relative to a regulated entity, the Enforcement Division coordinates with the relevant regulatory division to address the matter initially through supervision. Should supervisory efforts fail, the Enforcement

Division resumes the lead on the matter with an assessment of outcome and recommendation being presented to the Enforcement Committee for decision. Of the 41 complaints 15 were in relation to BCs, 13 in relation to unregistered entities purporting to be registered and 13 were related to regulated entities. 28 have resulted in investigations.

Referrals from EC and Regulatory Divisions make up some of the more substantive cases for the Division. These matters are predominantly contraventions of financial services legislation that require enforcement investigation or action. In 2019, 19 cases were referred, of which 14 were regulated entities, and 5 were in relation to unregulated BVI Business Companies. A summary of the internal referrals and resulting actions taken is depicted below:

19 Referred Cases

14 - Regulated Entities
5 - unregulated BVI Business Companies

2019 ENFORCEMENT MATTERS

Licensee Type	Monetary Penalty	Warning Letter	Strongly Worded Letter	No Action	Ongoing
Investment Business	2 [1]	2	-	1	2
Banking Insolvency Fiduciary Services &	1	1	2		2
Insurance	-	-	-	1	
Non-Regulated/BCs	-	-	-	-	5

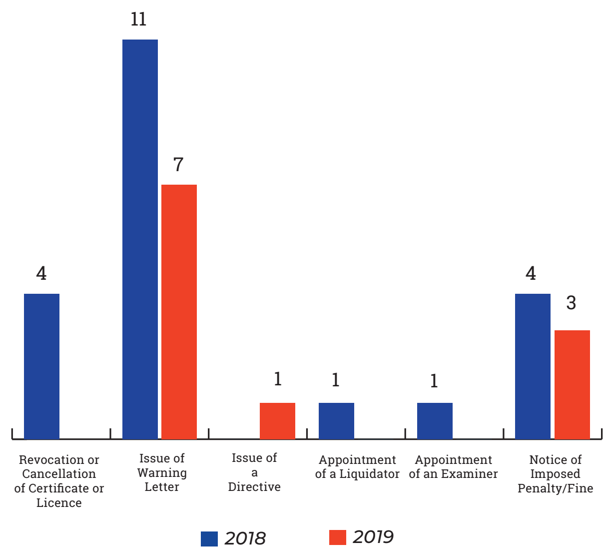
Investigations arise as a result of serious breaches of financial services legislation or allegations of fraud or other financial crime which requires a deeper assessment and analysis of each matter and are automatically treated as a higher priority within Enforcement. Key investigations of new matters received and closed in 2019 include, Sanctions Busting, Alleged Money Laundering and Corruption, Fraudulent Websites/ Certificates etc. [2] Other key investigations undertaken during the year related to AML compliance, Phishing and to further cooperation with foreign regulatory authorities.

ENFORCEMENT ACTION OUTCOMES

The most common enforcement actions continue to be the issuance of warning letters and the issuance of penalties or fines. Below is a summary of enforcement actions by the Commission in 2019 and compared with 2018.

[1] Issued in 2020

[2] Includes entities and persons purporting to be registered or licenced.



TRIAGING 'ONGOING' MATTERS

In July of 2019, the Enforcement Division embarked on a project to fully assess its outstanding and ongoing matters. The objective was to determine the facts underlying each matter, and what action, if any, was necessary. A significant number of matters which required review were identified. The matters were further assessed to exclude:

1. Completed matters that were related to the Commission's project to gauge Registered Agents compliance with AML/CFT requirements on beneficial ownership.

2. Matters related purely to company monitoring, unless it involves a regulated entity.

3. Matters outside the scope of Enforcement in relation to International Cooperation that are handled by legal.

4. Enforcement Committee administrative matters that required review to ensure the relevant documentation evidencing the completeness were recorded.

As a result of the foregoing assessments, the Division has identified approximately 125 cases that require further handling or investigations.

MONITORING THE PERIMETER

Another key task undertaken by the Division is media monitoring through a subscribed service. In 2019, there were approximately ninety-five (95) instances where media publications cited BVI companies in negative news articles. The main categories of negative media that stand to pose the most reputational risks are (1) Money Laundering and (2) Fraud. The Division's analysis of these matters is shared to the Compliance Inspection Unit to inform their inspection cycle.

POLICY, RESEARCH AND STATISTICS

POLICY, RESEARCH AND STATISTICS

The Policy Research and Statistics Division drives the Commission's policy and legislative review process to ensure the BVI's compliance with international standards, minimise and mitigate potential risk exposures to the jurisdiction and create a strong legislative foundation aimed and securing the jurisdiction's position as a reputable International Finance Centre.

Each year the global financial services industry faces new challenges as it adapts to a changing world with new and evolving products, services, and business models. Consequently, international standard setting bodies such as the Organisation for Economic Co-operation and Development (OECD), the Financial Action Task Force (FATF) and the Financial Stability Board (FSB) continuously devise initiatives to increase transparency and reduce the risks of money laundering and terrorist financing and other cross-border financial crime. In addition, innovative technologies and products require global regulators to devise new regulatory responses to address the risks posed by new technologies and to address the inefficiencies in the regulatory environment.

During, 2019, the Policy, Research and Statistics Division collaborated with units and divisions within the Commission in addressing regulatory matters and drafting suitable legislation for implementation. Engagement with government agencies and industry participants was also a key factor in the development of policies and legislation and facilitating streamlined implementation within the jurisdiction. These actions resulted in the drafting and enactment of the following legislation in 2019:

NEW LEGISLATION

Private Investment Funds Regulations, 2019

These Regulations establish an administrative framework for the operation and supervision of private investment funds, which were brought into the supervisory remit of the Commission via the Securities and Investment Business (Amendment) Act, 2019. The requirements that must be satisfied by private investment funds, as well as their ongoing obligations are also outlined within these Regulations.

Mutual Funds (Foreign Funds) Regulations, 2019

The Mutual Funds (Foreign Funds) Regulations, 2019 solidify the supervisory framework for recognised foreign funds and provide clarity on ongoing requirements for a foreign fund through the established provisions.

AMENDED LEGISLATION

Securities and Investment Business (Incubator and Approved Funds) (Amendment) Regulations, 2019

This amendment to the Securities and Investment Business (Incubator and Approved Funds) Regulations, 2015 expands on the requirements for incubator and incubator funds, which relate to the valuation of fund property and maintaining appropriate safekeeping arrangements. These regulations also place a maximum on the penalty that can be levied against an incubator or approved fund for the late payment of annual fees.

Securities and Investment Business (Amendment) Act, 2019

The Amendment Act expands the scope of the Securities and Investment Business Act, 2010 to expressly include a new supervisory regime for private investment funds. The amendment Act also imposes the authority and establishes the requirements for private investment funds to be recognised by the Commission. Under this amendment private investment funds must now appoint authorised representatives as liaison officers between each fund and the Commission.

Anti-Money Laundering (Amendment) Regulations, 2019

This amendment to the Anti-Money Laundering Regulations, 2008 brings private investment funds under the remit of the Territory's AML/CFT Regime.

Financial Services (Fees) (Amendment) Regulations, 2019

These Regulations amend the Financial Services (Fees) Regulations 2010 to assign fees to private investment funds and impose a new fee in relation to recognised foreign funds.

Financial Services (Miscellaneous Exemptions) (Amendment) Regulations, 2019

These amendment Regulations expand on the exemptions applicable to certain licensees under the Commission's remit by specifically exempting private investment funds, incubator funds and approved funds from the requirement to appoint a Compliance Officer and grant the Commission the power to exempt a private investment fund from the requirement to prepare and submit audited financial statements under certain conditions.

Mutual Funds (Amendment) Code, 2019

The Mutual Funds (Amendment) Code, 2019 amends the current legislative framework under the Mutual Funds Regulations, 2010 by expanding on requirements for the valuation of fund property and establishing auditing standards requirements for auditors of mutual funds.

Regulatory (Amendment) Code, 2019

This amendment to the Regulatory Code, 2009 addresses a number of matters, including:

- Imposing a responsibility on a licensee's board of directors to undertake a self-assessment of its effectiveness; and
- Requiring licensees to establish a policy on conflicts of interest to address standard of behaviour within the licensee, including the consequence for non-compliance with the policy.

The amendment also requires applicable licensees to have policies and procedures in place that enable a full understanding of the duties arising under the laws relevant to the administration and affairs of its customers for which the licensee is acting in other countries. New requirements for the submission and composition of the Compliance Officer Report to the Commission have also been imposed.

BVI Business Companies (Amendment) Act, 2019

Any company that continues in the Virgin Islands as a BVI Business Company ("BVIBC") and a BVIBC that has been struck from the Register of Companies which wishes to be restored to the Register have requirements for the filing of its Register of Directors.

BVI Business Companies (Amendment) Regulations, 2019

The BVI Business Companies (Amendment) Regulations, 2019 requires the Registrar of Corporate Affairs to specify that a company has filed its Register of Directors, or is not yet due to file its register of directors, when issuing a Certificate of Good Standing for a BVIBC.

Development of Policies, Guidelines and Forms

The Division is responsible for the development of policies for the functions of the Commission as well as guidance for industry participants. Application forms to facilitate the administration of new legislation and policies are also developed within the Division. In 2019, the Division developed the following:

Private Investment Fund Regime Guidelines, 2019 and Private Investment Fund Application Form

These guidelines, which include sample application forms, provide specific guidance on the private investment fund regime, by describing the requirements for recognition as a private investment fund, as well as ongoing obligations to which these funds must adhere.

Fund Financials Guidelines, 2019

The Fund Financials Guidelines, 2019 were issued in accordance with section 41A of the Financial Services Commission Act and provide guidance for funds seeking exemptions and extensions in preparation and submission of financial statements, exemptions for the requirement to appoint an auditor and approval of an auditing standard. The guidelines also outline the circumstances which may be considered in facilitating these requests.

Fund Safekeeping Arrangements Guidelines, 2019

These guidelines are issued in accordance with section 41A of the Financial Services Commission Act and serve to inform on the types of arrangements that the Commission considers appropriate for the safekeeping of fund property and the ultimate security of fund assets.

Regional and International Engagement

The Commission routinely collaborates and engages with international standard setting bodies, to promote the consumer safety and sustainability of the global financial services sector. This requires the Commission to engage with several regional and international bodies in the development of international standards, collation and analysis of jurisdictional data for reporting, conduction of international assessments and attendance at relevant meetings and conferences. Policy Division team members have facilitated in the Commission's regional and international engagements on the development of standards and contributed to the following in 2019:

CARIBBEAN FINANCIAL ACTION TASK FORCE (CFATF)

The Virgin Islands is an active member of the CFATF, which ensures that its members meet international AML/CFT standards. The Division assisted the jurisdiction's work within the CFATF by performing in the following capacities:

- representing the jurisdiction at CFATF Working Groups and Plenary Meetings
- serving as a financial assessor on a CFATF mutual evaluation
- completing relevant FATF/CFTAT Surveys representing the jurisdiction at CFATF Steering Group meetings.

COMPLETION OF SURVEYS

During the year the Policy Division also coordinated the Commission's response to a number of external surveys. The data from these surveys are used to identify and analyse global financial services trends, develop financial indicators, identify risk exposures and improve on gaps and deficiencies. During the year 2019, the Division contributed to the completion of surveys from the following organisations:

- Association of Supervisors of Banks of the Americas (ASBA)
- International Association of Insurance Supervisors (IAIS)
- World Bank (WB)
- Group of International Financial Centres (GIFCS)
- Caribbean Association of Insurance Regulators (CAIR)
- Financial Stability Board (FSB).

REGIONAL AND INTERNATIONAL REPRESENTATION

The Policy Division routinely comprises delegations that represent the FSC and the Virgin Islands at meetings of member associations. The Division represented the Commission at the following meetings during the year 2019:

- The Group of International Financial Centres Supervisors (GIFCS) Plenary Meeting
- FSB Regional Consultative Group for the Americas-Non-Bank Financial Intermediation Working Group (NBFIWG)
- Meeting of the UK Overseas Territories Financial Services Regulators.

ASSESSMENT EVALUATIONS

As an international financial centre, the Virgin Islands is committed to relevant international standards that seek to prevent illicit activities and promote sound industry practices. In this vein the Division actively participates in the Commission's preparation for international assessments. During 2019, the Division completed activities in relation to the GIFCS and CFATF assessments of the Virgin Islands.

• Group of International Financial Centre Supervisors (GIFCS)

During 2019, the Virgin Islands was assessed against the international standards established by GIFCS, with included an onsite visit to the Virgin Islands in Quarter 4, 2019. The Division coordinated the Commission's efforts to gather and analyse information and respond to the pre-onsite questionnaire aimed at determining a jurisdiction's technical compliance with the standards. As a member of the Commission's assessment team the Policy Division identifies gaps in the framework and proposes amendments to existing legislation and the development of new legislation. The Division also participated in interviews during the onsite assessment process and continued to provide input on post-onsite matters.

- Caribbean Financial Action Task Force (CFATF)

The Virgin Islands is slated for a CFATF review of its AML/CFT framework against the requirements of the FATF Recommendations and Methodology in 2021. In 2019, the Division continued its engagement in preparing for the assessment process. This has included conducting an assessment of the jurisdiction's technical compliance with the requirements of the FATF Recommendations, identifying legislative deficiencies and proposing necessary reform. Persons within the Division have actively participated in progressing a number of Commission-wide initiatives in strengthening the AML/CFT Regime, as well as acting as liaison with other government departments and agencies in enhancing the jurisdiction's effectiveness in implementing the AML/CFT Regime.

DOMESTIC ENGAGEMENT

As a Financial Services Regulator, the Commission enlists the input of the private and public sector in identifying and coordinating efforts for enhancement of the jurisdiction's regulatory framework. This is undertaken through the operation of various industry committees. The Division coordinated committee activities for the operation of the following during the year:

- Company Law Review Advisory Committee (CLRAC)
- Inter-governmental Committee on AML/CFT Matters (IGC)
- Joint Anti-money Laundering and Terrorist Financing Advisory Committee (JALTFAC)
- Council of Competent Authorities (CCA)

INTERNAL ENGAGEMENT

Given the responsibility for developing relevant legislation, policies and forms, the Division works closely with all other areas within the Commission to develop solutions to resolve issues. During 2019, the Division worked extensively with regulatory divisions to develop prudential returns that will integrate application of the risk-based approach framework.

Employees within the Division are also engaged with other persons within the Commission to progress project-based initiatives such as the enhancement of the risk-based supervisory framework and the development of a Fin-Tech framework and statistical analysis.

DEVELOPMENT OF STATISTICAL BULLETINS

The Division maintains statistical data on the business activities of the Commission. This data is published on a quarterly basis as the Commission's Quarterly Statistical Bulletin. The Statistical Bulletins provide an informative view of financial services activities and offers indicators for industry trends along with brief analytical summaries of statistical changes.

ONGOING INITIATIVES

The nature of the Division's work, in some instances require long-term research and development to advance initiatives through completion. In addition to the matters discussed within this report, the Division in 2019 continued to review the Commission's internal policies and procedures with a view of enhancing the effectiveness of the Commission's regulatory programme, initiate the development of legislation to address deficiencies, mitigate new risks and enhance effectiveness as a regulator, interact with government departments and agencies to reform statistical templates and legislation, and develop new regimes. Whilst the Division was not able to progress a number of these initiatives to completion during the year, the Division continued to make strides in these arenas.

FINANCIAL LITERACY - MONEY MATTERS

2019 REPORT OF INITIATIVES

Money Matters BVI is the Financial Literacy Programme of the Commission (the Programme/ MMBVI) which was launched in 2011. The Programme fulfils part of the Commission's mandate under s.4(k) of the Financial Services Act, 2001 to adopt measures as may be necessary to appropriately inform the general public on its functions and on matters relating to or affecting any financial services business.

MMBVI provides messaging to a broad range of persons within the community through crafted initiatives. The Programme is proactive in identifying relevant topics/ issues, developing mechanisms to increase public awareness and providing an easily identifiable source for information.

Tier 1 - Youth
(Pre-Primary and Primary Level Children)

Tier 2 - Teenagers/Young Adults
(High School and College Level Youth)

Tier 3 - Adults
(Adult Workers, Entrepreneurs, Retirees)

MMBVI assists members of the BVI community to understand debt reduction, retirement planning, how to bridge income and savings, and the relevance and application of the myriad of available financial products.

In going about its mission, Money Matters seeks to adopt the OECD three-stage competency model of:

a) Building awareness, knowledge, and understanding of the existence of the need;

b) Mentorship and teaching of skills and acceptable behaviours; and,

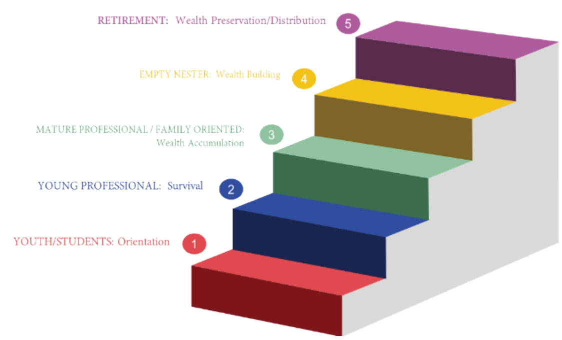
c) The gradual changing of mind-sets toward financial literacy topics.

The value of this model is harnessed through two main teaching applications:

a) Financial Literacy; and,

b) Public Education

The MMBVI personal finance life cycle at in the Figure below, shows our view of implementation timing for addressing key knowledge areas of earning, saving, spending, borrowing and protecting wealth, for persons in the identified tiers:



2019 INITIATIVES

Money Matters has undertaken a broad array of financial literacy initiatives during 2019, which covered areas such as:

- Personal Finance and Health;
- Wills and Estate Planning;
- Women empowerment through financial literacy;
- Rising insurance premiums;
- Money Management for Young Adults;
- Financial Tips for University Students;
- Effect of Financial Challenges on Mental Health;
- Self -actualisation through financial planning; and
- The benefits of saving

In addition to the outlined initiatives, Money Matters (a) produced and launched several print and audio media promotions, (b) improved its document bank of surveys, budgeting sheets, and 'tip sheets', and (c) engaged its social media audiences with periodic commentary. Some of these events have captured the interest of local media and thus the reach of those initiatives have been further promoted through published articles.

MMBVI continues to expand its reach within the BVI community beyond dissemination of useful information to create a greater awareness of financial literary issues. MMBVI was successful in lobbying the Government of the Virgin Islands to agree for the inclusion of financial literacy related questions within the 2020 Census. This effort will net vital statistical data which will help the programme tailor its outreach and measure its effectiveness within the Territory.

INTERNATIONAL MEMBERSHIPS

MMBVI is a member of the International Forum for Investor Education (IFIE) Caribbean Working Group which helps to support the mission of the International Organisation of Securities Commissions (IOSCO)

The Programme delivered a presentation entitled Connecting with Financial Literacy Audiences through the use of Vernacular Language in Communications at the 2019 Annual Meeting of IFIE's Caribbean Working Group. The presentation focused on speaking the language of millennials to achieve effective reach, and on how the use of unique vernacular marketing productions could capture the attention of wider audiences.

MMBVI continues to explore more effective ways to reach members of the BVI community and is actively engaged in increasing its social media presence while maintaining their traditional modes of communication.

HUMAN RESOURCES

HUMAN RESOURCES

The Commission remains focused on recruiting and maintaining a diverse staff complement of exemplary professionals. In 2019, the Human Resources Division continued its role in providing reliable service and support to divisions and employees, while supporting the organisation. General HR support is provided through recruitment efforts, ensuring compensation and benefits are adequately administered properly, training and developing employees and enhancing employee relations. As a developing and adaptive organisation, the Commission regularly assesses its human resources needs to ensure it can carry out its mandate as the Territory's financial services regulator. The Commission received over 140 applications for temporary and long-term employment and advertised 5 job opportunities.

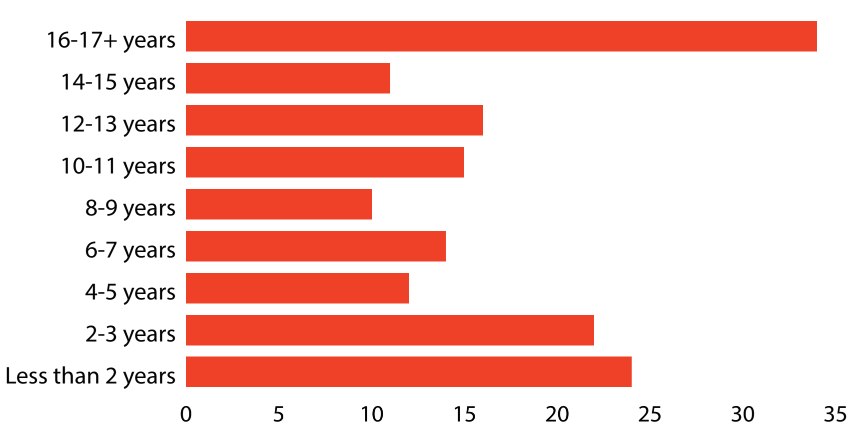
WORKFORCE COMPOSITION

2019

157 Employees

27% of employees **16+ years**

In 2019 the Commission had 157 employees. The Commission has a high rate of employee retention. Over 27% of its employees have been with the Commission for 16 or more years and half of its employees having been with the Commission for over 10 years.



The Commission continued its investment in the development of young professionals in the Territory through the annual summer internship programme. In 2019, 23 college/ university students were employed during the summer months. Placements are offered to persons who express a genuine interest in financial services, or related professions. 47% of the interns in 2019 were repeat interns from years prior.

30% of summer interns worked in placements within the Registry of Corporate Affairs. Summer students were offered exposure to the following areas within the Commission: Intellectual Property, Investment Business, Business Services, Human Resources, Financial Literacy Programme, Enforcement, Compliance Inspection, Legal, Information Technology, Finance, Banking, Insolvency and Fiduciary Services and Insurance.

Four new hires were recruited for regular full-time roles – one entry level, two administrative, and one at a middle management level.

EMPLOYEE DEVELOPMENT

Three members of the Commission's 2017 cohort in its 2-year Cadet Programme completed the programme. Two of the cadets were placed within regulation and the other within the Enforcement Division. The Commission is committed to ensuring that there are opportunities for the development of future regulators.

In 2019 four employees were promoted into new roles. Employees received promotions within the Investment Business Division, Compliance Inspection Unit, Registry of Corporate Affairs and the Office of the Registrar of Trade Marks, Patents and Copyright.

TRAINING AND DEVELOPMENT

In 2019, the Commission appointed a Deputy Director in Human Resources with specific responsibility for the Commission's Training and Development function. Through this dedicated role, the Commission has prioritized developing and retaining the required talent and expertise in alignment with its strategic objectives. We anticipate that as the professional development programme grows, it will provide targeted opportunities for skills development and enhancement. We are particularly keen to develop extensive capabilities and skills on emerging product areas and sector and critical skills such as investigations and risk and data management. This new appointment will also enable the Division to coordinate internal cross-disciplinary training opportunities for employees more effectively.

The were no employee requests for study leave in 2019. The Commission continues to provide educational assistance to employees who were granted study leave in 2018 in the fields of Law and Business and Management with a focus in Accounting and Finance.

Commission employees are regularly granted enrichment opportunities through the attendance and participation in international meetings, conferences, and other specialist training events. The Commission was represented at over 31 sector related events and trainings in 2019.

SEPARATIONS

Four employees separated from the Commission in 2019, one of which was due to early retirement. The separations from the Commission in 2019 decreased significantly when compared to the previous years: 20 separations in 2016, 12 separations in 2017 and 18 separations in 2018.

Separations		
2018	2017	2016
18	12	20

EMPLOYEE HEALTH AND WELLNESS

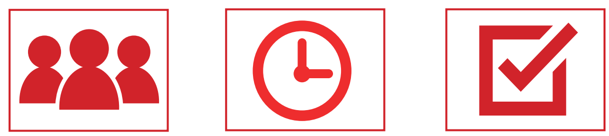
The Commission prioritises holistic wellbeing of its employees and regularly promotes engagement in physical wellness programmes and activities. Thirty employees accessed the Commission's gym membership programme during 2019. The Commission used its platform FSC Get Moving to introduce different forms of physical exercise including, Soca Aerobics and Hight Intensity Interval training (HIIT).

The Commission also sponsored employee involvement in community wellness initiatives, which encourages team collaboration and helps in building employee morale. Forty-Four employees registered for the Annual Cancer Awareness Walk for a Cure in October, which was the greatest number of participants for the event to date.

Confidential professional counselling services are also provided to employees through the Commission's Employee Assistance Programme (EAP). The EAP has proved helpful in assisting employees to cope with life and environmental stressors which may impact their work performance and is available for individuals or groups of employees. The Commission approved and added another mental health service provider to the programme, which expanded the existing options to employees.

HIGHLIGHTS

The Human Resources Division introduced HR software to improve its administrative efficiency in the collection and organisation of employee information and processing of benefits and other employee matters. The software provides an automation of HR services at the Commission and provides employees with real time information of leave balances, staff attendance, general notices. The HR software has also facilitated:



Employee and Manager self-service

Time and attendance tracking

Application tracking

LOOKING AHEAD

The Human Resources Division is committed to aligning its efforts for the improvement of its processes and policies, while increasing efficiency. The Commission intends to continue to prioritise the ongoing development of a skilled and professional workforce.

CORPORATE SERVICES

The Corporate Services Division facilitates the operations of the Commission by providing innovative products and services and managing the Commission's resources and assets to meet the demands of other functional business teams. The Division is comprised of several departments and units including: Finance, Information Technology, Facilities, Business Services, Corporate Communications, Office of the Registrar of Trade Marks, Patents and Copyright, Corporate Services and the Registry of Corporate Affairs. These teams work in tandem to achieve quality and solution driven results to the business teams of the Commission.

Key objectives of the Division include improving productivity and efficiency while containing costs.

The Division provides products, services and support to several Commission initiatives and regularly works alongside all areas of the Commission to achieve the Commission's objectives. The Division ensures that the Commission is equipped to function efficiently and deliver timely and professional services to industry stakeholders.

In 2019 the Commission hosted forty-three external events at its Resource Centre, in addition to regular internal meetings and conferences.

The Division is responsible for the coordination of the Commission's operations, records and inventory management. In 2019, the Division managed internal requests for over 30,000 physical files and maintains the Commission's on premise and off premise record keeping facilities

VIRRGIN DEVELOPMENTS

Upgrades and other modifications to VIRRGIN were consistent in 2019 to adjust to legislative changes and increase the ease of doing business in the BVI. Some of the notable changes implemented in VIRRGIN during 2019 include:

- Additional email notifications and alerts for intranet VIRRGIN users;
- Increased availability of electronic certificates for additional functions;
- Program upgrades to the to better facilitate bulk transactions filings; and
- Functions for the special incorporations of new corporate structures.

The Commission has committed to complete its VIRRGIN Revamp Project which should begin in 2020 and is anticipated to be completed in 2021. This project will introduce a modern and more intuitive VIRRGIN user interface which facilitate greater ease of navigation, enhanced display screens and more efficient filing and processing of transactions.

IP DATA MANAGEMENT

In 2019, the Department developed a new system using in-house resources for the management of intellectual property records held by the Office of the Registrar of Trade Marks, Patents and Copyright. Once fully implemented, this solution will catapult the Office of the Registrar of Trade Marks, Patents and Copyright into a fully digitised office, and is one of the first stages in preparing the office for a bespoke IP registration and asset management system.

The Department also worked in consultation with the Commission's business units to upgrade the accounting platform to improve purchase requisition processes and expand revenue collection transactions.

FINANCE

The Finance Department assists the Commission to achieve its objects in a wide range of areas. Its role is to help the Commission shape and deliver its regulatory remit by providing quality advice and services, particularly on fiscal and economic matters.

The Finance Department issues monthly reports to management and the Board of Commissioners on the Commission's financial status and activities. The monthly reports provide information on revenue, expenditure, cash flow, the performance of investment products and the Commission's overall financial position.
The Finance Department routinely provides leadership within the Commission on fiscal matters, proposing and enforcing policies and procedures to encourage compliance

with accounting standards and best business practices, and to achieve financial success.

Support and procedural assistance – During the year the Department collaborated with other areas to plan, support and execute various initiatives. In addition to financial knowledge, the Department provided business insights to help guide business decisions.

Our People – The key to the Finance Department carrying out its remit is its people. The Director, Finance oversees four team members; an Accounts Payable Manager, Staff Accountant, Accounts Officer and an Accounts Assistant/Cadet.

Budget, financial management services and advice - The Finance Department is responsible for delivering and managing the Commission's income and expenditure budget. During the year the Finance Department oversaw a $29.5MM (2018: $28.6MM) expenditure budget comprised of $26.6MM (2018: $25.5MM) for operating expenditures and $2.9MM (2018: $3MM) for capital expenditures. In 2019 the Commission realized expenditures of $25.9MM. That was $3.6MM or 12% within budget estimates. In 2019 $24.3MM was realized in operating expenditures which was $2.3MM or 9% within budget estimates. Capital expenditures of $1.5MM were 48% below budget estimates.

Part of the remit of the department is to manage the collection of revenue generated from financial services activities on behalf of the government. The 2019 budget estimates for those fees were $236.7MM (2018: $211.4MM). Actual receipts amounted to $231.7MM (2018: $260MM) which was $5MM or 2% below budget estimates. Out of those fees the Finance Department transferred $205MM (2018: $232MM) to Government pursuant to the retention agreement between the Commission and the Government for 2019.

From its 11.5% retention of fees collected on behalf of the Government (2018: 11.5%, 2017: 11.5 %) and other collections, the Commission had available $29.6MM (2018: $30.7MM) in direct revenue to fund the Commission's operations. After operating expenditures the Commission generated an operating surplus of $4.2MM (2018: $4.8MM).

Investment Funds Administration – The Finance Department also administers the Commission's reserves and other assets through investments.

Investment Holdings	
Regulatory Deposits held on behalf of Licensees	US$8.3MM
In Time Deposits	US$5.2MM
Total	**US$13.5MM**

In additional $5.2MM were held in time deposits with local retail banks. The average interest rate on time deposits was 1.88% (2018 : 1.45%).

Financial support and technical assistance to Government – By mutual agreement, the Commission provides technical and fiscal assistance for incubation of the International Arbitration Centre. Similar arrangements are in place for assistance to the operations of the Financial Investigations Agency and Financial Services Institute for industry development and education initiatives. In 2019 this technical assistance was approximately $3.1MM.

Management and Accountability - The Finance Department's operations are subject to external review. In compliance with the Financial Services Commission Act, the Commission's financial management is audited annually. In 2019 the Department planned and executed a request for proposal from local audit firms to provide audit and tax services for the three years ended December 31, 2018, 2019 and 2020. A successful bidder was selected by the Board in March 2019. Shortly thereafter the auditor was engaged to assess the financial statements of the Commission for the year ended December 31, 2018. That included considering internal controls, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made. The auditor issued an unqualified report on those statements on October 9, 2019.

INFORMATION TECHNOLOGY

The IT Department facilitates the Commission's business in a secure and resilient manner by employing evolutionary technological solutions. Department personnel underwent specialist training in mitigating cyber risks in operations to improve both the expertise and the use of mitigation strategies in the Commission's operations.

The Commission's resilience as a leading International Finance Centre is reliant on the vigilance of its IT Team in protecting the Commission's information assets from threats of cyber-attacks and other potential compromises to its intellectual property. Resilience is particularly important to the operations of the Registry given the service level agreement for a number of transactions is measured in hours and not days. In 2019, the Department was successful in testing partial and full Disaster Recovery failovers and following through with its schedule for ongoing verification.

HR INFORMATION SYSTEM

The IT department in collaboration with the Innovation Delivery Unit, supported the implementation of a new human resources management system. The system was successfully deployed for employee and benefits management.

Security and Surveillance at the Commission's office Campus is necessary to protect operations and information assets. The IT and facilities teams upgraded critical security and surveillance infrastructure during the year to reduce the likelihood of compromise. Similarly, efforts are ongoing to protect assets from cyber security threats using holistic approaches to policing systems and assets.

CORPORATE COMMUNICATIONS

The Corporate Communications function manages the Commission's external voice, managing communications assets such as the website and industry publications. Corporate communications also manages media relations, professional appearances by Commission employees and general communications to stakeholders. The Commission hosted industry practitioners at a mid-year meet the regulator forum in July. The feature address at the MTR was delivered by the DMD Corporate Services, a speech titled, "Today is the future". Business presentations were also delivered by the DMD Regulation, who presented on 'electronic verification and customer due diligence' and the Deputy Director Investment Business who delivered a presentation on the proposed Regulatory Sandbox.

During the final quarter of 2019, and in an effort to increase external engagement, the Commission reintroduced a monthly online publication to share updates and information on financial services related topics, regulatory developments and filing deadlines with our industry partners.

2020 OUTLOOK

Website interactions are a large part of how licensed entities, market participants and the public engage with the Commission. The Commission intends to unveil significant improvements to its website in 2020, with specific revamps to the organisation of the legislation library and the full suite of other documents housed on the site. The document library is a busy section of the site with over half of all visitors making their way there.

To improve the engagement with industry partners, the Commission will continue the monthly industry publication which alerts users on approaching regulatory deadlines for filings and fee payments and announces regulatory changes and supervisory amendments.

Through the Innovation Delivery Office, the Division anticipates delivery to internal users of its comprehensive data management application and roll out of the regulatory sandbox capabilities.

BRITISH VIRGIN ISLANDS

FINANCIAL SERVICES COMMISSION

Audited Consolidated Financial Statements

For the Year Ended December 31, 2019

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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For the Year Ended December 31, 2019

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BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Directory
For the Year Ended December 31, 2019

BOARD OF COMMISSIONERS

Mr. Robin Gaul	Chairman
Mr. Jonathan Fiechter	Deputy Chairman
Ms. Denise Reovan	Commissioner
Mr. Ian Smith	Commissioner
Ms. Carlene Romney	Commissioner
Mr. Andrew Bickerton	Commissioner
Mr. Carl Hiralal	Commissioner
Mr. Robert Mathavious	Managing Director/CEO, ex officio Commissioner

REGISTERED OFFICE

P.O. Box 418
Pasea Estate
Road Town, Tortola
British Virgin Islands

SECRETARY TO THE BOARD

Ms. Annet Mactavious

INDEPENDENT AUDITORS

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British Virgin Islands

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Tortola VG1110
British Virgin Islands

Independent Auditor's Report

To the Board of Commissioners
British Virgin Islands Financial Services Commission
Tortola, British Virgin Islands

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of the British Virgin Islands Financial Services Commission and its subsidiaries (the "Group"), which comprise of the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of comprehensive income, changes in contributed capital and reserves and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report (Continued)

Report on the Audit of the Financial Statements (Continued)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Limited

Tortola, British Virgin Islands
September 24, 2020

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Financial Position
As at December 31, 2019
Expressed in United States Dollars

	Notes	2019 $	2018 $
ASSETS			
Non-current assets			
Property and equipment	4	6,456,068	5,748,276
Projects under development	5	-	334,161
Right-of-use asset, leasehold premises	6	7,523,674	-
Total non-current assets		13,979,742	6,082,437
Current assets			
Regulatory deposits	8	8,642,017	8,691,499
Cash	9	20,734,009	17,898,877
Time deposits	10	10,356,264	10,238,720
Other receivables and deposits	11	803,408	722,367
Total current assets		40,535,698	37,551,463
TOTAL ASSETS		**54,515,440**	**43,633,900**
CONTRIBUTED CAPITAL, RESERVES AND LIABILITIES			
Contributed capital and capital reserves			
Contributed capital	12	3,993,900	3,993,900
Property and equipment reserve	12	6,456,068	6,082,437
Future capital expansion reserve	12	7,500,000	7,500,000
Total contributed capital and capital reserves		17,949,968	17,576,337
Surplus and revenue reserves			
Training reserve	12	400,000	400,000
Loan revolving reserve	12	165,000	165,000
Refunds and drawback reserve	12	50,000	50,000
Enforcement reserve	12	2,000,000	2,000,000
Contingency reserve	12	2,610,857	2,766,834
Administrative penalties fund reserve	12	2,720,985	2,409,816
Total surplus and revenue reserves		7,946,842	7,791,650
Total contributed capital and reserves		25,896,810	25,367,987
Non-current liabilities			
Lease liabilities	6	6,639,402	-
Total non-current liabilities		6,639,402	-
Current liabilities			
Lease liabilities	6	1,013,352	-
Trade and other payables	13	2,114,393	2,430,456
Deposits on account and other deposits	14	6,209,466	6,143,958
Distribution payable to Government	15	4,000,000	1,000,000
Regulatory deposits from licensed entities	8	8,642,017	8,691,499
Total liabilities		21,979,228	18,265,913
TOTAL CONTRIBUTED CAPITAL, RESERVES AND LIABILITIES		**54,515,440**	**43,633,900**

Signed on behalf of the Commission on September 24, 2020

Chairman *Managing Director (Ag.)*

The accompanying notes form an integral part of these consolidated financial statements

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Comprehensive Income
For the Year Ended December 31, 2019
Expressed in United States Dollars

	Notes	2019 $	2018 $
INCOME			
Fees collected on behalf of the Government	9,16	234,230,674	262,536,471
Less: Fees due to the Government	7	(204,997,880)	(231,972,987)
Fees retained by the Commission		29,232,794	30,563,484
Other income	17	382,357	179,476
TOTAL INCOME		29,615,151	30,742,960
EXPENSES			
Staff costs	20	14,882,189	13,733,538
International Arbitration Centre funding	23	1,940,938	1,811,600
Professional services		1,355,707	1,689,153
Maintenance and hire		1,184,817	798,561
Lease amortisation	4,6	1,164,965	-
Depreciation	4	1,088,397	1,528,946
Financial Investigations Agency funding	23	750,000	750,000
Travel and subsistence		583,825	458,386
Telephone and communications		541,502	717,858
Financial Services Institute funding	23	450,000	450,000
Utilities		247,186	234,854
Office expenses		200,715	218,306
Insurance		147,825	120,303
Licenses and fees		139,415	124,043
Literature and reference		111,301	93,735
Insurance Tribunal	23	98,274	102,335
Public relations		96,106	140,822
Memberships and subscriptions		81,808	126,362
Rent and lease		71,441	1,289,538
Conferences and seminars		68,910	34,108
Impairment loss	4,5	57,500	1,236,460
Miscellaneous		31,832	21,521
BVI House Asia funding		7,463	394,649
TOTAL EXPENSES		25,302,116	26,075,078
FINANCE COST			
Interest expense related to lease liability	6	(408,130)	-
Interest income	18	257,173	156,849
NET FINANCE COST		(150,957)	156,849
SURPLUS BEFORE GOVERNMENT DISTRIBUTION AND ENFORCEMENT PROCEEDS		4,162,078	4,824,731
Distribution to Government	15	(4,000,000)	(5,000,000)
SURPLUS (DEFICIT) BEFORE ENFORCEMENT PROCEEDS		162,078	(175,269)
Enforcement proceeds	19	366,745	316,910
SURPLUS FOR THE YEAR		**528,823**	**141,641**

The accompanying notes form an integral part of these consolidated financial statements

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Changes in Contributed Capital and Reserves
For the Year Ended December 31, 2019
Expressed in United States Dollars

	Opening balance $	Surplus for the year $	Transfers $	Utilisation of reserves $	Closing balance $
2019:					
Surplus	-	528,823	(528,823)	-	-
Contributed capital	3,993,900	-	-	-	3,993,900
Property and equipment reserve	6,082,437	-	373,631	-	6,456,068
Training reserve	400,000	-	-	-	400,000
Loan revolving reserve	165,000	-	-	-	165,000
Future capital expansion reserve	7,500,000	-	-	-	7,500,000
Refunds and drawbacks reserve	50,000	-	-	-	50,000
Enforcement reserve	2,000,000	-	-	-	2,000,000
Contingency reserve	2,766,834	-	-	(155,977)	2,610,857
Administrative penalties fund reserve	2,409,816	-	366,745	(55,576)	2,720,985
	25,367,987	**528,823**	**211,553**	**(211,553)**	**25,896,810**
2018:					
Surplus	-	141,641	(141,641)	-	-
Contributed capital	3,993,900	-	-	-	3,993,900
Property and equipment reserve	7,352,936	-	(1,270,499)	-	6,082,437
Training reserve	400,000	-	-	-	400,000
Loan revolving reserve	165,000	-	-	-	165,000
Future capital expansion reserve	7,500,000	-	-	-	7,500,000
Refunds and drawbacks reserve	50,000	-	-	-	50,000
Enforcement reserve	2,000,000	-	-	-	2,000,000
Contingency reserve	1,671,604	-	1,095,230	-	2,766,834
Administrative penalties fund reserve	2,092,906	-	316,910	-	2,409,816
	25,226,346	**141,641**	**-**	**-**	**25,367,987**

The accompanying notes form an integral part of these consolidated financial statements

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2019
Expressed in United States Dollars

	2019 $	2018 $
CASH FLOW FROM OPERATING ACTIVITIES		
Surplus for the year	528,823	141,641
Adjustment to reconcile net surplus to net cash from operating activities before working capital changes:		
Depreciation	1,088,397	1,528,946
Amortisation of right-of-use leasehold premises	1,164,965	-
Impairment loss	57,500	1,236,460
Interest expense on leases	408,130	-
Interest income	(257,173)	(156,849)
Operating surplus before working capital changes	2,990,642	2,750,198
Increase in other receivables and deposits	22,350	(156,901)
(Decrease) increase in trade and other payables	(316,064)	764,185
Increase in deposits on account and other deposits	65,508	2,161,183
Increase in distribution payable to Government	3,000,000	-
Net cash flows from operating activities	5,762,436	5,518,665
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in time deposits - net	(117,544)	(5,056,903)
Acquisition of property and equipment	(1,519,528)	(735,786)
Costs for projects under development	-	(759,121)
Interest received	153,783	156,849
Net cash used in investing activities	(1,483,289)	(6,394,961)
CASH FLOW FROM FINANCING ACTIVITIES		
Interest payments on leases	(408,130)	-
Principal payments on leases	(1,035,885)	-
Net cash used in financing activities	(1,444,015)	-
NET INCREASE (DECREASE) IN CASH	**2,835,132**	**(876,296)**
CASH		
At beginning of year	17,898,877	18,775,173
At end of year	**20,734,009**	**17,898,877**

Cash is comprised of:

	2019 $	2018 $
Restricted cash (see Note 9)	12,253,642	13,699,081
Unrestricted cash	8,480,367	4,199,796
Total	20,734,009	17,898,877

The accompanying notes form an integral part of these consolidated financial statements

1. ORGANISATION AND OBJECTIVES

The British Virgin Islands Financial Services Commission (the "Commission" or the "Parent") was established under the Financial Services Commission Act, 2001 (the "Act") on December 31, 2001 as a statutory corporation. The Act established the Commission including its subsidiaries (collectively referred to as the "Group") as an autonomous regulatory authority responsible for the regulation, supervision and inspection of all financial services in and from within the British Virgin Islands ("BVI"). Such services include insurance, banking, insolvency, fiduciary business, company management, mutual funds business as well as the registration of companies, limited partnerships and intellectual property. The registered office of the Commission is at Pasea Estate, Road Town, Tortola, BVI.

The Commission is governed by a Board of Commissioners which includes a Chairman, six independent commissioners and the Managing Director/CEO ("the Board"). The Government of the British Virgin Islands (the "Government") is the sole interest holder in the Commission and appoints the Board.

2. BASIS OF PREPARATION

2.1 Presentation of financial statements

(i) International Financial Reporting Standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").The policies have been consistently applied to all the years presented unless otherwise stated.

(ii) Accounting convention

The consolidated financial statements are prepared under the historical cost convention.

(iii) Presentation and functional currency

The consolidated financial statements are presented in United States Dollars ("$"), which is the Group's functional and presentation currency.

(iv) Significant accounting estimates and judgement

The preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. Management is also required to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Significant judgements, estimates and assumptions made by management in the preparation of these consolidated financial statements are disclosed in Note 3.

2.2 Adoption of New Standards, Amendments and Interpretations

(i) Standards, amendments and interpretations to existing standards effective and relevant to the Group

The Group applied IFRS 16 Leases for the first time. The nature and effects of the changes as a result of adoption of this new accounting standard are in note 26.

(ii) Standards, amendments and interpretations to existing standards in issue but not yet effective and relevant to the Group

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2019 and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect of the consolidated financial statements of the Group.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, the Board is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimates, that the Group have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern

A key assumption in the preparation of consolidated financial statements is that the entity will continue as a going concern. The going concern assumption assumes that the Group will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities in the normal course of operations.

Determining the lease term of contracts with renewal and termination options - Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group included the renewal period as part of the lease term for leases of all office buildings. These renewal options range from 3 years to 10 years. The Group typically exercises its option to renew for these leases because there will be a significant negative effect on operations to relocate and the Group has incurred significant leasehold improvements on the premises.

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property and equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment are analysed in Note 4. Based on management's assessment as at December 31, 2019, there is no change in estimated useful lives of property and equipment during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

Borrowing rate used for leases

The Group estimates the incremental borrowing rate used in the calculation of its lease liabilities in relation to its adoption of the IFRS 16. IFRS 16 requires that lease payments shall be discounted using the interest rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the incremental borrowing rate shall be used. The borrowing rate was determined to be 5.5%.

Expressed in United States Dollars

4. PROPERTY AND EQUIPMENT

The movements of the carrying amounts of the Group's property and equipment are as follows:

	Freehold land $	Leasehold land $	Motor vehicles $	Furniture and equipment $	Computer and software $	Leasehold improvements $	Total $
Cost							
Balance at December 31, 2018	4,500,000	130,000	264,797	3,100,107	16,786,593	2,432,103	27,213,600
Additions	-	-	-	272,414	839,313	407,801	1,519,528
Transfer from project under development	-	-	-	92,313	18,728	223,120	334,161
Balance at December 31, 2019	4,500,000	130,000	264,797	3,464,834	17,644,634	3,063,023	29,067,289
Accumulated depreciation							
Balance at December 31, 2018	-	28,890	228,179	2,786,792	14,795,623	2,389,380	20,228,864
Depreciation	-	2,064	36,618	201,821	704,148	143,746	1,088,397
Balance at December 31, 2019	-	30,954	264,797	2,988,613	15,499,771	2,533,126	21,317,261
Accumulated impairment							
Balance at December 31, 2018	-	-	-	-	1,236,460	-	1,236,460
Impairment	-	-	-	-	57,500	-	57,500
Balance at December 31, 2019	-	-	-	-	1,293,960	-	1,293,960
Carrying amount At December 31, 2019	4,500,000	99,046	-	476,221	850,903	529,897	6,456,068
Cost							
Balance at December 31, 2017	4,500,000	130,000	264,797	2,940,447	14,598,506	2,421,203	24,854,953
Additions	-	-	-	159,660	565,226	10,900	735,786
Transfer from project under development	-	-	-	-	1,622,861	-	1,622,861
Balance at December 31, 2018	4,500,000	130,000	264,797	3,100,107	16,786,593	2,432,103	27,213,600
Accumulated depreciation							
Balance at December 31, 2017	-	26,827	181,860	2,647,859	13,482,511	2,360,861	18,699,918
Depreciation	-	2,063	46,319	138,933	1,313,112	28,519	1,528,946
Balance at December 31, 2018	-	28,890	228,179	2,786,792	14,795,623	2,389,380	20,228,864
Accumulated impairment							
Impairment	-	-	-	-	1,236,460	-	1,236,460
Balance at December 31, 2018	-		-		1,236,460	-	1,236,460
Carrying amount At December 31, 2018	4,500,000	101,110	36,618	313,315	754,510	42,723	5,748,276

Expressed in United States Dollars

5. PROJECTS UNDER DEVELOPMENT

The movements of the cost of the Group's projects under development are as follows:

	VIRRGIN $	MBC $	RC $	Total $
Balance at December 31, 2017	386,401	811,500	-	1,197,901
Additions		424,960	334,161	759,121
Transfer to property and equipment	(386,401)	(1,236,460)	-	(1,622,861)
Balance at December 31, 2018	-	-	334,161	334,161
Additions	-	-	-	-
Transfer to property and equipment	-	-	(334,161)	(334,161)
Balance at December 31, 2019	**-**	**-**	**-**	**-**

(i) Virtual Integrated Registry and Regulatory General Information Network ("VIRRGIN")

At December 31, 2018, the Group had an existing contract with a vendor relating to the development of an internet-based information system featuring electronic filing of documents called VIRRGIN.

VIRRGIN was completed in three phases of development, each of which was released separately. The VIRRGIN project costs that were capitalised included (a) registry engine licence; (b) implementation and development costs for Phases I, II and III; other additional consultancy and software implementation charges; airfare, accommodation and other travel expenses incurred during the implementation of the project. During the year ended December 31, 2018, the Group completed Phase III of VIRRGIN. Costs relating to Phases I, II and III of VIRRGIN are capitalised as computer and software under Property and Equipment (see Note 27).

(ii) Micro Business Companies ("MBC")

In March 2017, the Group engaged a vendor to develop an application system to administer and manage Micro Business Companies ('. During the year ended December 31, 2018, the Commission completed the MBC project and incurred development costs totaling $1,236,460 that were transferred to property and equipment. As at December 31, 2018, the Group impaired the total cost of MBC project as a result of no revenues being generated.

During the year ended December 31, 2019, the MBC project incurred additional costs totaling $57,500. Those costs were recorded as part of Property and Equipment additions and were subsequently impaired during the year (see Note 27).

(iii) Resource Center ("RC")

In July 2018, the Group engaged a third party to construct a resource center facility to be utilised for staff trainings and meetings. During the year ended December 31, 2018, the Group incurred $334,161 on the project. During the year ended December 31, 2019, the facility was completed and the costs were transferred to Property and Equipment.

6. LEASES

The Group has lease contracts for its various office buildings both in the British Virgin Islands and in Hong Kong.

(a) Right-of-use assets leasehold premises

The following tables detail the Group's right-of-use assets as at December 31, 2019.

	2019 Buildings $	2018 Buildings $
At January 1	8,688,639	-
Amortisation for the year	(1,164,965)	-
At December 31	7,523,674	-

Expressed in United States Dollars

6. LEASES (Continued)

(b) Lease liabilities

	2019 $	2018 $
At January 1	8,688,639	-
Lease payments for the year	(1,444,015)	-
Interest expense	408,130	-
At December 31	7,652,754	-
Less: Current portion	(1,013,352)	-
Non-current portion	6,639,402	-

The maturity analysis of the lease liabilities is disclosed below:

	2019 $	2018 $
Up to 3 months	226,607	-
Between 3 and 12 months	786,745	-
Between 1 and 2 years	1,123,646	-
Between 2 and 5 years	3,266,976	-
Over 5 years	2,248,780	-
	7,652,754	-

7. SUBSIDIARIES

Composition

The Parent has three wholly-owned subsidiaries as at December 31, 2019, two of which are domiciled in the BVI and one in Hong Kong. These subsidiaries provide disaster recovery and Hong Kong liaison services to the Parent.

Financial support

The Parent provides financial support to all three subsidiaries which currently do not derive revenue on their own and therefore are dependent on the Parent for their operational financing.

8. REGULATORY DEPOSITS

By statute, certain entities licensed to operate in the financial services sector within the British Virgin Islands are required to place a deposit with the Commission. The Group has undertaken to hold these amounts in the following designated interest-bearing instruments:

	2019 $	2018 $
Cash in bank	430,937	614,829
Treasury bills	8,211,080	8,076,670
	8,642,017	8,691,499

Interest earned on these instruments is distributed to the licensees on a semi-annual basis.

The investments in treasury bills have maturities within twelve months from the acquisition date.

The deposits are refundable upon surrender of the licence. For the year ended December 31, 2019, the deposits earned an average rate of interest of 1.27% (2018: 0.62%). Total interest income earned for these deposits amounted to $107,334 (2018: $53,981). These regulatory deposits are restricted and not available for general use.

Expressed in United States Dollars

9. CASH

	2019 $	2018 $
Cash held in Government Trust Account	8,981,018	15,468,342
Payable to Government	(5,713,403)	(10,313,974)
Net cash held in Government Trust Account	3,267,615	5,154,368
Cash in operating accounts	16,683,259	11,972,913
Cash in insolvency account	783,135	771,596
Total cash	20,734,009	17,898,877

Fees collected on behalf of the Government are paid into a trust account maintained jointly in the name of the Commission and the Government. Prior to the commencement of the Group's financial year, the Cabinet of Government ("Cabinet") determines the percentage of fees collected on its behalf that is to be remitted to the Government, with the Group retaining the balance. For the year ended December 31, 2019, the Group retained 11.5% (2018: 11.5%) of revenue up to the projected revenue stream and thereafter, the Group retained 7.5% (2018: 7.5%) of any revenue in excess of the projected revenue stream. This resulted in cash of $5,713,403 (2018: $10,313,974) being held on behalf of the Government as at December 31, 2019.

Restricted cash

The cash held in Government Trust Account above are restricted and not available for general use by the Group.

The cash disclosed above and in the consolidated statement of cash flows include $2,776,561 (2018: $2,400,755) which are held in a separate bank account. These deposits relate to funds received for administrative penalties and are not available for general use by the Group (see Note 12 for restrictions on the administrative penalties fund reserve).

In addition, the Group's cash balance includes restricted funds for deposits on account, insolvency surplus reserve and deferred revenue transactions totalling $6,209,466 (2018: $6,143,958), see note 14.

10. TIME DEPOSITS

Time deposits represent short term placements with local depository banks whose maturity dates are between 92 and 353 days from the reporting date (2018: between 206 and 358 days), and are more than three months from the placement date with an average interest rate of 1.88% (2018: 1.45%). As at December 31, 2019, the total time deposits amounted to $10,356,264 (2018: $10,238,720). For the year ended December 31, 2019, total interest earned from time deposits amounted to $184,202 (2018: $79,423).

11. OTHER RECEIVABLES AND DEPOSITS

	2019 $	2018 $
Prepaid expenses	351,464	344,362
Due from BVI House Asia	245,210	245,200
Travel advances	38,312	50,916
Loan to employees	50,602	44,156
Interest receivable	103,391	36,733
Other receivables	14,429	1,000
	803,408	722,367

BVI House Asia is a related party by virtue of common control by the BVI Government. This balance is unsecured and no fixed re-payment terms.

Expressed in United States Dollars

12. CONTRIBUTED CAPITAL AND RESERVES

Contributed Capital

The Commission was established as a statutory corporation and no share capital was assigned to it. The Commission was funded by the Government through a contributed capital amount which at that time represented approximately 3 months of operating expenses.

Surplus and reserves

In accordance with Section 26 of the Act, the surplus for the year is allocated to reserve accounts at the discretion of the Commission unless otherwise agreed upon by the Cabinet of the Government. The capital and revenue reserves established include:

Capital reserves

(i) Property and equipment reserve reflects the investment into property & equipment to date, less amortisation.

(ii) Future capital expansion reserve to partly finance the acquisition of property, construction and equipment of the Group's own building in the BVI at a future date;

Revenue reserves

(i) Training reserve for long term training / study leave of staff;

(ii) Loan revolving reserve to facilitate staff loans (personal, medical, etc.);

(iii) Refunds and drawback reserve to provide cash for making refunds when necessary;

(iv) Enforcement reserve to establish a fund to address enforcement expenses as they arise; and

(v) Contingency reserve to establish a fund in the event of unforeseen circumstances.

(vi) Administrative penalties fund reserve is funded by administrative penalties' proceeds imposed and received by the Group and is restricted for administration of public awareness and education in salient areas identified by the Group.

13. TRADE AND OTHER PAYABLES

	2019 $	2018 $
Accounts payable and accrued expenses	997,471	1,336,357
Employee deductions and benefits payable	1,116,922	1,094,099
	2,114,393	2,430,456

Employee deductions and benefits payable

Employee deductions and benefits payable includes accrued unpaid vacation benefits totalling $1,116,922 (2018: $1,090,247) to the Group employees.

14. DEPOSITS ON ACCOUNT AND OTHER DEPOSITS

	2019 $	2018 $
Deposits on VIRRGIN accounts	4,900,266	4,843,577
Insolvency surplus reserve	760,698	751,882
Fees from Official Receiver	548,502	548,499
	6,209,466	6,143,958

Deposits on VIRRGIN accounts

In 2006, the Group implemented VIRRGIN that allows licensees to administer transactions online. As a result of this development, licensees are required to deposit funds with the Group in advance of effecting an online transaction.

The bank account associated with Deposits on VIRRGIN Accounts is a separate bank account which is not available for general use.

Expressed in United States Dollars

14. DEPOSITS ON ACCOUNT AND OTHER DEPOSITS (Continued)

Insolvency surplus reserve

Pursuant to the Insolvency Rules, 2005, the Insolvency surplus reserve pertains to monies representing unclaimed assets received from liquidators or bankruptcy trustees after the completion of a liquidation or bankruptcy proceeding. The bank account associated with the insolvency surplus reserve is a separate bank account which is not available for general use.

Amounts are paid out of the reserve to any person that the Group is satisfied to make payment with respect to an insolvency proceeding for which the monies were paid into the reserve.

Fees from Official Receiver

Under the Insolvency Act, the Commission can appoint an Official Receiver. Fees collected by the Official Receiver are held by the Group for safekeeping, pending agreement with the Government and the Group including which entity is entitled to the benefit of the fees collected.

15. DISTRIBUTION PAYABLE TO GOVERNMENT

On October 23, 2018, the Board approved a distribution to Government of $1,000,000 from the surplus earned by the Group during the year ended December 31, 2017 and was paid during the year ended December 31, 2018. This amount was accrued and recorded as distribution payable to Government as at December 31, 2017.

During the year ended December 31, 2018, the Board approved and paid a distribution to Government amounting to $4,000,000 from the surplus earned during the year ended December 31, 2018.

On August 27, 2019, the Board of Commissioners approved an additional distribution to Government of $1,000,000. This amount was accrued and recorded as a distribution payable to Government as at December 31, 2018.

On July 28, 2020, the Board approved a distribution to the Government of $4,000,000 from the Surplus earned during the year ended December 31, 2019.

16. FEES COLLECTED ON BEHALF OF GOVERNMENT

	2019 $	2018 $
Fees from the Registry of Corporate Affairs	227,097,079	256,656,296
Regulatory fees	7,133,595	5,880,175
	234,230,674	262,536,471

17. OTHER INCOME

	2019 $	2018 $
Receipts of court ordered legal costs	121,000	145,000
Rental income	156,132	-
Receipts of miscellaneous income	105,225	34,476
	382,357	179,476

Rental income pertains to rent charges earned by the Group from BVI House Asia that shares office space in Hong Kong.

18. INTEREST INCOME

	2019 $	2018 $
Interest income from time deposits	184,202	79,423
Interest income from cash	72,971	77,426
	257,173	156,849

Expressed in United States Dollars

19. ENFORCEMENT PROCEEDS

Enforcement proceeds relates to fees imposed and received for enforcement actions against licensees. These fees are classified as other comprehensive income and are not available for general use by the Group. Refer to Notes 9 and 12.

20. STAFF COSTS

	2019 $	2018 $
Wages and salaries	11,241,635	10,257,001
Allowances and benefits	2,198,612	2,224,202
Payroll taxes	575,945	513,176
National health insurance	333,640	314,260
Social Security benefits	269,517	259,014
Employment costs	262,840	165,885
	14,882,189	13,733,538

The average number of full-time employees in 2019 was 181 (2018: 181).

During the year ended December 31, 2019, the Group paid $1,401,968 (2018: $1,275,711) for current service costs toward a defined contribution plan (see Note 21), which has been included in allowances and benefits.

21. DEFINED CONTRIBUTION PENSION PLAN

The Group established a defined contribution plan (the “Plan”) to provide retirement benefits for all established employees which is administered by trustees appointed by the Group. Under the Plan, the Group has an obligation limited to 15% of the participants’ basic annual salary, with the participants contributing a minimum of 5%. A participant’s interest in the Group’s contributions commences to vest after 7 years employment and is fully vested after 10 years.

22. RELATED PARTY BALANCES

The Financial Secretary of the Government and Accountant General along with the Chairman of the Board and the Managing Director /CEO are signatories to a joint bank account maintained in the names of the Government and the Commission referred to as the Government Trust Account as per Section 19 (1) and (7) of the Act (see Note 9).

Key Management Personnel and Board of Commissioners Remuneration

During the year ended December 31, 2019, the salaries and allowances paid to the Group’s key management personnel and board of commissioners amounted to $891,397 (2018: $823,910).

23. COMMITMENTS AND CONTINGENCIES

Commitments

The Group contracted Equinix Hong Kong Limited to provide the Group with data center services. The contract commenced in 2014 with a monthly cost of $3,886. In 2017, the Group’s commitment with Equinix Hong Kong Limited expired and the contract is now on an automatic renewal term of two years that can be terminated by either party.

The Group is committed to provide funding to BVI House Asia, Financial Investigation Agency, Financial Services Institute, International Arbitration Centre and Insurance Tribunal as support to their operations. The Board of Commissioners and the Government determine necessary funding requirements of these entities on an annual basis as part of the Commission’s budget discussion. The total funding recorded during the year amounted to $3,246,675 (2018: $3,508,584). All commitments were fully paid as at reporting date. These are recorded as part of the expenses in the consolidated statement of comprehensive income of the Group.

Contingencies

In the ordinary course of business, the Group is subject to legal proceedings, claims, disputes and litigation as a result of its role as the regulator of the British Virgin Islands financial services industry. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, the Group does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

24. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks; market risk (foreign exchange risk, interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by management under policies approved by the Board. Management identifies, evaluates and hedges financial risks in close co-operation with the Board. The Board provides guidance for overall risk management such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Financial assets of the Group include cash, time deposits, regulatory deposits, other receivables and deposits. Financial liabilities include trade and other payables, licence fees and other receipts, distribution payable to Government, and regulatory deposits from licensed entities.

24.1 Market risk

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (foreign currency risk) or other market factors (other price risk).

(i) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. In the normal course of business, the Group may enter into transactions denominated in foreign currencies. As a result, the Group is subject to transaction and translation exposure from fluctuations in foreign exchange rates.

As at December 31, 2019, the Group did not have any significant foreign currency denominated assets or liabilities.

(ii) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Floating rate instruments expose the Group to cash flow interest rate risk whereas fixed rate instruments expose the Group to fair value interest rate risk.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and cash equivalents and time deposits. As at December 31, 2019 approximately 47% (2018: 49%) of the Group's assets were held in bank accounts, with floating interest rates.

With all other variables held constant, given a 25 basis point increase in the market interest rate, the Group's surplus would increase by $63,699 (2018: $52,993). A decrease of 25 basis points in the market interest rate, with all other variables held constant, would decrease the Group's surplus by an equal amount.

24.2 Credit risk

Credit risk arises from regulatory deposits, cash, time deposits, other receivables and deposits. Other receivables include travel expense advances and unsecured loans extended to various employees of the Group. The extent of the Group's exposure to credit risk in respect of these financial assets approximate the carrying values as recorded in the Group's consolidated statement of financial position.

The Group's management addresses credit risk through placement of cash on short term money market placements, interest bearing deposits and U.S Treasury Bills at a variety of regulated BVI financial institutions and effective and efficient collection policies.

Expressed in United States Dollars

24. FINANCIAL RISK MANAGEMENT (Continued)

24.2 Credit risk (continued)

The Group's cash (excluding petty cash), time deposits, other receivables and deposits (excluding prepayments) are held by financial institutions with the following rating per Moody's Investors Services.

Moody's	2019 $	2018 $
Aa2	2,782,726	5,377,887
A2	53,664	9,907
Ba1	17,293,535	
Ba2	-	16,580,874
Ba3	3,140,106	1,030,052
Total rated	23,270,031	22,998,720
Non-rated	8,344,179	6,274,623
Total	31,614,210	29,273,343

24.3 Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Group is exposed to liquidity risk from its financial liabilities which include trade and other payables, licence fees and other deposits, distribution payable to Government and regulatory deposits from licensed entities. Prudent liquidity risk management implies maintaining sufficient cash to meet its current operating requirements. The Commission is not exposed to significant liquidity risk as it maintains sufficient cash and cash equivalents to meet its current and foreseeable future obligations.

The table below analyses the Commission's financial liabilities into relevant maturity groupings based on the remaining period at the date of the financial statements to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The following table shows the Group's aging of its contractual repayment period to its creditors as of December 31, 2019:

	On demand $	Within one year $	Total $
Trade and other payables	2,114,392	-	2,114,392
Deposits on account and other deposits	6,209,466	-	6,209,466
Regulatory deposits from licensed entities	8,642,017	-	8,642,017
Distribution payable to Government	4,000,000	-	4,000,000
Total	20,965,875	-	20,965,875

Expressed in United States Dollars

24. FINANCIAL RISK MANAGEMENT (Continued)

24.3 Liquidity risk (Continued)

The following table shows the Group's aging of its contractual repayment period to its creditors as of December 31, 2018:

	On demand $	Within one year $	Total $
Trade and other payables	2,430,456	-	2,430,456
Deposits on account and other deposits	6,143,958	-	6,143,958
Regulatory deposits from licensed entities	8,691,499	-	8,691,499
Distribution payable to Government	1,000,000	-	1,000,000
Total	18,265,913	-	18,265,913

25. SUBSEQUENT EVENTS

No events have occurred subsequent to December 31, 2019 and before the date of the report that would have a significant effect on these financial statements other than those already disclosed in the notes and the below.

COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and known now as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. As of the date of issuance of the financial statements, the Group's operations have not been significantly impacted, however, the Group continues to monitor the situation. No impairments were recorded as of the balance sheet date as no triggering events or changes in circumstances had occurred as of year-end; however, due to significant uncertainty surrounding the situation, management's judgement regarding this could change in the future. In addition, while the Group's results of operations, cash flows and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

26. EFFECTS OF CHANGE IN ACCOUNTING POLICIES

The Group adopted IFRS 16 with a transition date of January 1, 2019. The nature and effects of the changes as a result of adoption of this new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

- **IFRS 16 Leases**

  IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standards set out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Consolidated Statement of Financial Position.

  Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

Expressed in United States Dollars

26. EFFECTS OF CHANGE IN ACCOUNTING POLICIES (Continued)

- **IFRS 16 Leases (continued)**

The Group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (January 1, 2019), without restatement of comparative figures. The Group elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

(a) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics; and

(b) Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Group previously classified leases as operating, or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases") and as such right-of-use assets and lease liabilities are not recognised in these instances.

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet. On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities as follows:

Operating lease

- Liabilities are measured at the present value of the remaining payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The rate applied was 5.5%.
- Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.
- Measured based on the carrying values for the lease assets and liabilities immediately before the date of initial application (i.e. carrying values brought forward, unadjusted).

The following table presents the impact of adoption of IFRS 16 on the consolidated statement of financial position as at January 1, 2019:

	December 31, 2018 As originally presented $	IFRS 16 $	January 1, 2019 $
Assets			
Right-of-use assets	-	8,688,639	8,688,639
Liabilities			
Lease liabilities	-	8,688,639	8,688,639

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets of $8,688,639 and lease liabilities of $8,688,639.

27. SIGNIFICANT ACCOUNTING POLICIES

27.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Commission and its subsidiaries. Control is achieved when the Group:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

27.2 Financial assets

(i) Recognition and measurement

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through Profit or loss ("FVTPL"), transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income ("FVOCI"), it needs to give rise to cash flows that are "solely payments of principal and interest" ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date i.e., the date that the Group commits to purchase or sell the asset.

27. SIGNIFICANT ACCOUNTING POLICIES (Continued)

27.2 Financial assets (Continued)

(i) Recognition and measurement (Continued)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- Financial assets at FVTPL.

(ii) Financial assets at amortised cost

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments on the principal amount outstanding. Financial assets at amortised cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group’s financial assets at amortised cost include cash and cash equivalents, time deposits and other receivables.

(iii) Impairment of financial assets

The Group recognises allowances for expected credit losses (“ECLs”) on financial assets measured at amortised cost. At each reporting date, the Group shall measure the loss allowance at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Group shall measure the loss allowance at an amount equal to 12-month expected credit losses. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance

Financial assets are derecognised and removed from the consolidated statement of financial position when the rights to cash flows from financial assets expire, or the financial assets have been transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. Any interests created or retained on the transferred financial assets are recognised separately as assets or liabilities.

On derecognition of financial assets, the difference between carrying amounts and the total of considerations received and cumulative gains or losses that had been recognised in other comprehensive income are recognised in profit or loss.

When the Group retains substantially all of the risks and rewards of ownership for transferred financial assets, the financial assets continue to be recognised and the consideration received is recognised as a financial liability.

When financial assets are transferred and the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial assets, nor transferred control of the assets, the financial assets continue to be recognised to the extent of the continuing involvement in the financial assets.

When continuing involvement takes the form of guaranteeing the transferred assets, the continued involvement is measured at the lower of the carrying amount of the financial assets and the maximum amount of consideration received that the Group could be required to repay.

27. SIGNIFICANT ACCOUNTING POLICIES (Continued)

27.2 Financial assets (Continued)

(iii) Impairment of financial assets (Continued)

When continuing involvement takes the form of a written and/or purchased option, including cash-settled options, on the transferred assets, the continued involvement is measured as the amount of the transferred assets that the Group may repurchase, except in the case of a written put option on financial assets measured at fair value, where the continued involvement is measured at the lower of the fair value of the transferred assets and the option exercise price.

(iv) Derecognition of financial assets

Financial assets are derecognised and removed from the consolidated statement of financial position when the rights to cash flows from financial assets expire, or the financial assets have been transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. Any interests created or retained on the transferred financial assets are recognised separately as assets or liabilities.

When derecognition of financial assets, the difference between carrying amounts and the total of considerations received and cumulative gains or losses that had been recognised in other comprehensive income are recognised in profit or loss the Group retains substantially all of the risks and rewards of ownership for transferred financial assets, the financial assets continue to be recognised and the consideration received is recognised as a financial liability.

When financial assets are transferred and the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial assets, nor transferred control of the assets, the financial assets continue to be recognised to the extent of the continuing involvement in the financial assets.

When continuing involvement takes the form of guaranteeing the transferred assets, the continued involvement is measured at the lower of the carrying amount of the financial assets and the maximum amount of consideration received that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option, including cash-settled options, on the transferred assets, the continued involvement is measured as the amount of the transferred assets that the Group may repurchase, except in the case of a written put option on financial assets measured at fair value, where the continued involvement is measured at the lower of the fair value of the transferred assets and the option exercise price.

27.3 Financial liabilities

(i) Recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, distribution to government payable and regulatory deposits from licensed entities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Trade and other payables, distribution payable to Government and regulatory deposits from licensed entities are measure at amortised cost using the effective interest rate method.

(ii) Derecognition of financial liabilities

Financial liabilities are derecognised and removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled, or expires. The difference between the carrying amount of the financial liabilities derecognised and the consideration paid, is recognised in profit or loss.

Where financial liabilities are replaced with the same lender or the terms are substantially modified, the original financial liabilities are derecognised and new financial liabilities have been recorded.

Expressed in United States Dollars

27.3 Financial liabilities (Continued)

(iii) Offsetting of financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when the Group has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

27.4 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment. Depreciation is calculated on the straight-line method to write off the cost of each asset over their estimated useful life as follows:

Leasehold land	63 years
Motor vehicles	5 years
Furniture and equipment	3 years
Computer and software	3 years
Leasehold improvements	5 years

At the end of each reporting period, the Group is required to assess whether there is any indication that an asset may be impaired. If there is an indication that an asset may be impaired, then the asset's recoverable amount must be calculated. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gain and losses on disposals are determined by comparing the proceeds with the carrying amounts of the assets and are recorded in the consolidated statement of comprehensive income.

27.5 Projects under development

Costs incurred on the VIRRGIN and MBC projects are recognised as intangible assets to the extent that such expenditure is expected to generate future economic benefits. Development costs for each phase, including licensing costs that have been capitalised, are transferred to fixed assets when each phase of project is completed. Amortisation will be charged on the costs of each phase as each phase is brought into use. Maintenance and support costs relating to the VIRRGIN and MBC projects are expensed in the period to which they relate.

The costs incurred on the RC project are accumulated and capitalised as part of projects under development. Once completed, the costs of the RC project are transferred to property and equipment and depreciation is recorded from the date it is available for use.

27.6 Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

For these leases, the Group recognises the lease payments as an operating expense on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

IFRS 16 was adopted on January 1, 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at January 1, 2019, see Note 26. The following policies apply subsequent to the date of initial application, January 1, 2019.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group’s incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

The lease liability is presented as a separate line in the consolidated statement of financial position.

27. SIGNIFICANT ACCOUNTING POLICIES (Continued)

27.6 Leases (Continued)

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise of any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised;
- right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:
    - lease payments made at or before commencement of the lease;
    - initial direct costs incurred; and
    - the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term as follows:

Leasehold premises	3-8 years

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 27.3.

The right-of-use assets are presented as a separate line item in the consolidated statement of financial position.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

The Group did not make any such adjustments during the periods presented.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

The Group did not make any such renegotiations during the periods presented.

For contracts that both convey a right to the Group to use an identified asset and require services to be provided to the group by the lessor, the Group has elected to account for the entire contract as a lease, i.e. it does not allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

27. SIGNIFICANT ACCOUNTING POLICIES (Continued)

27.6 Leases (Continued)

Nature of leasing activities (in the capacity as lessee)

The Group leases office spaces in the jurisdictions from which it operates. In the BVI, it is customary for the periodic rent to be fixed over the lease term.

27.7 Revenue recognition

Revenue Streams, Performance Obligations and Revenue Recognition Policies

The Group derives revenue from the collection of fees and charges payable under the Act and financial services legislation in the following area:

- Registry of Corporate Affairs;
- Banking and Fiduciary Services;
- Investment Business;
- Insurance; and
- Insolvency Services.

Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue is recognised at the point in time as the services are provided. Revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the time.

In addition, the Group collects revenue from the imposition of penalties and enforcement fees which are recognised on an accrual basis at the time the penalties and enforcement fees are imposed.

The Group also generates revenue through interest income from its investments and deposits with banks. Interest income is recognised as interest accrued on a time basis by reference to the principal outstanding and to the effective interest rate applicable.

27.8 Expense recognition

All expenses are recognised in the consolidated statement of comprehensive income on the accrual basis.

27.9 Taxation

In accordance with Section 28 of the Act, the Commission is exempt from the payment of all taxes, levies and license fees on its income and operations and from the payment of all taxes, duties and rates on its property and documents. Taxes payable by the Commission pertain to payroll taxes. Certain investment income may be subject to withholding taxes at its source from the country of origin.

27.10 Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs in those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which
- are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

27. SIGNIFICANT ACCOUNTING POLICIES (Continued)

27.10 Foreign currencies (Continued)

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into US Dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in the statement of comprehensive income.

27.11 Pension plan

Payments to defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

28. COMPARATIVE FIGURES

Certain comparative figures in the financial statements have been reclassified to conform with the current year's presentation.

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